COMMODITY EXCHANGES

With Special Reference to India in General and Bombay in Particular.

BY

P. G. SALVI, M. A.

WITH A FOREWORD BY

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TO

MY FATHER

FOREWORD

I am glad to respond to the request of Mr. SALVI to write a few words by way of introduction to his book on the Commodity Exchanges in India. It is obvious that his work if it is not a pioneering work is a more exhaustive piece of work than any that has so far appeared in the field. In nine chapters, he has examined the commodity exchanges in all their aspects and has thrown great light on an obscure subject. The subject of commodity exchanges is closely related to agriculture. India is an agricultural country and yet very little attention is paid to that subject. Those who are interested in the betterment of the agriculturists of India cannot but welcome the appearance of this comprehensive and instructive study.

Bombay, 29th Dec., 1946 B. R. AMBEDKAR

INTRODUCTION

Commodity Exchanges are an important link in the marketing of agricultural commodities. If one link is broken the whole chain is lost. The main function of a commodity exchange is to provide a hedge market where buyers and sellers cover their price risks.

The importance of the forward market in the marketing machinery was stressed by the Report of the Agricultural Credit Department of the Reserve Bank of India for 1937 which stated that, "short-term advances for marketing produce should be regarded as an important part of banking business." The report pointed out that the commercial banks had hitherto been unable to develop produce advances to the extent of their capacity owing to the extraordinary diversification and vagueness of market conditions throughout India and the manner in which produce contracts were drawn. In this connection the Report stressed the importance of the following improvements in marketing machinery and the produce to be handled: (i) the grading and standardisation of staples and of contracts; (ii) the provision of properly regulated markets and elsewhere, of suitable storage conditions which would permit of insurance; (iii) the creation of properly regulated local as well as forward markets. In the light of these suggestions considerable progress has been made in the case of the first two items. Some progress has also been made in several provinces with legislation for the setting up or improvement of regulated markets. But little has been done as regards the establishment where possible and advisable of properly regulated forward markets permitting of "hedging" and thus leading to the mitigation of violent market fluctuations.

The subject of stock and commodity exchanges was studied in America as early as 1896 in the Columbia University by H. C. Emery. His work entitled "Speculation on the Stock and Produce Exchanges of the United States," is still considered an authoritative document on organised markets. Another scholarly work on the subject is G. W. Hoffman's "Futures Trading upon Organised Commodity Markets." There are also a number of Government and private publications published in America dealing with some or the

other aspect of the problem. In England, a valuable study of the problems of organised markets is J. G. Smith's "Organised Produce Markets." A full list of the books and periodicals consulted by us is given in the bibliography.

As to studies regarding Indian Commodity Exchanges, the Marketing Reports published by the Agricultural Marketing Adviser to the Government of India give a brief account of the same. Prof. M. L. Dantwala's "Marketing of Cotton in India" undertaken under the auspices of the School of Economics deals with the marketing of cotton in general and the organisation of the East India Cotton Association in particular and Dr. Dholakia's "Futures Trading and Futures Markets in Cotton" mainly gives a comparative study of the Indian and foreign cotton exchanges. Cotton is thus the only commodity the futures market for which has been studied. Next to cotton, grain and oilseeds are exclusively traded in in the Bombay markets on a forward basis, but no study of the same has yet been made. As regards cotton necessary material for the study of cotton market is available as Government has recognised the East India Cotton Association Ltd., as the only authorised body to trade in futures in cotton, and the Association has to maintain necessary material. While in grain and oilseeds markets no annual reports are published nor the transactions are recorded. We had to depend on the material that was made available by the Secretaries of these associations, and for whose courtesy we are grateful. As these associations are not publishing annual reports giving full data on the lines of the East India Cotton Association we had to face severe handicaps. There has not been as yet any scientific study of the behaviour of prices and of the effects of speculation on these markets. The Government of India and the Provincial Governments felt from time to time the need for such studies for administrative and economic purposes. In 1940, the Government of Bengal appointed Prof. J. A. Todd of the Liverpool School of Commerce as the head of the Jute Enquiry Committee in that province. His report gives an analysis of the constitution and organisation of the Jute markets of Calcutta. This study is also not comprehensive as it does not deal with the prices on these markets. Thus in the field of commodity exchanges in India, Dr. Dholakia's book mentioned above seems to be the only study yet available. It was decided, therefore, to examine the working of the grain and oilseeds markets in Bombay so as to throw further light

on the problems of commodity exchanges in general as also on the problems of the exchanges in these commodities in particular.

Bombay is by far the most important centre for futures trading in wheat, groundnuts, cottonseed, linseed, castorseed and several other commodities. Being an important terminal market, it exercises a strong influence over all the internal markets of India. If the working of the commodity exchanges in Bombay is properly studied it would help to improve methods and machinery of organised markets here as well as elsewhere.

This study was commenced in July 1940 under the supervision of Prof. J. J. Anjaria, M.A. M.Sc. (Econ.), Lond., and accepted for the M. A. degree of the Bombay University. In order to have a comparative idea of the working of other markets and to collect first-hand information, I visited Amritsar, Lahore, Lyallpur, Hapur and Delhi markets. During my investigations, I consulted various persons connected with trade and the Agricultural Marketing Department, Delhi. I also prepared a questionnaire and obtained, through personal interviews, answers from the representatives of various interests (vide Appendix 'A'). The rules and bye-laws regarding the constitution and working of the Bombay markets were translated by me from Hindi and Gujarati into English with the assistance of friends in the business line. These have been quoted in appropriate places. The study is based on factual data about spot and futures prices of wheat, groundnuts and linseed of the Bombay Markets.

The book is divided into eleven chapters. The main functions of commodity exchanges are given in Chapter I. The growth of produce exchanges in America and England and the rapid growth of produce exchanges in India after the Great War (1914-18) are traced in Chapter II. Chapter III examines the intricate organisation and working of commodity exchanges in general, as a necessary background to the study of the constitution and working for exchanges in Bombay. Chapters IV, V, VI are mainly devoted to the study of the constitution and working of the Grain Merchants' Association, the Seeds Traders' Association and the Marwadi Chamber of Commerce respectively. A comparative study of these three associations is attempted in Chapter VII. Chapter VIII sets out briefly the theory of Speculative Prices and in Chapter IX this is followed up by an examination of the prices of groundnuts, linseed and wheat in the Bombay markets. Chapter X deals with

the effects of the War. The need for regulation of these markets in the light of experience in other countries is the subject matter of the last chapter.

It is very pleasant to close this Introduction with acknowledgements. I am extremely grateful to Dr. T. G. Shriname who, besides arousing my interest in the working of commodity exchanges, procured me access to much unpublished material necessary for such a study.

I would like to record with thanks the ungrudging help I have received from Mr. Ratilal M. Gandhi, President, the Seeds Traders' Association; Mr. Manibhai Desai, Secretary, The Seeds Traders' Association; Mr. Umashankar Dixit, Secretary, Marwadi Chamber of Commerce; Mr. R. J. Desai, former Assistant Secretary, the Grain Merchants' Association, Bombay.

To Prof. J. J. Anjaria, M.A. M.Sc. (Econ.), Lond. who guided me during three years of research at Bombay my most sincere thanks are due. I must also thank Mr. K. S. Krishnaswamy for kindly looking through parts of my manuscript.

I am specially indebted to Dr. B. R. Ambedkar who, in spite of his pre-occupations, kindly consented to write a Foreword to this book.

I also acknowledge my indebtedness to the University of Bombay for the substantial financial help it has granted towards the cost of the publication of this book.

New Delhi P. G. SALVI

CONTENTS

COMMODITY EXCHANGES

CHAPTER I

FUNCTIONS OF COMMODITY EXCHANGES

"COMMODITY Exchanges are specialized organised markets which provide a place where their members buy and sell commodities or contracts for future delivery under established rules and regulations."[1] Thus the primary service of a commodity exchange or a produce exchange is to provide a marketplace where the members meet at definite times and transact certain types of business under the rules laid down by the organization. In the second place, its function is to regulate business dealings of its members. In the third place, the exchange provides a method for settling trade disputes, specifies grades for the commodities dealt in, and gathers and distributes market information. The exchange as such has no dealings in the commodities handled by its members. The distinguishing feature of a commodity exchange is that it furnishes an open market, managed under standardized practices for one or more commodities.

Types of Transactions.

Trading on the commodity exchanges consists of two classes of transactions : spot or cash, and futures. A spot or cash transaction is purchase or sale of a commodity or some specific grade of it by paying cash on the spot or within a short period as prescribed by the exchange and the delivery is taken also on the day of purchase or usually within a maximum period of eight days. Further, after a spot transaction is made it cannot be rescinded for the purpose of taking away the margin if the price rises, as in forward transactions. This means that the purchaser has to take delivery, the seller has to deliver, and money has to be exchanged between the parties. The other kind of transaction, called futures trading or dealing in futures, is similarly an agreement between parties as to the purchase or sale of a particular commodity or grade thereof, on the understanding that the delivery may be taken on a future date agreed upon. Whereas a spot or cash trans-

1. Pyle, J. F. *Marketing Principles*, p. 133.

action may be entered into on the basis of sample, a futures transaction must necessarily have reference to a standardized grade. Futures transactions are further subdivided into two classes, speculative and hedging, which are described in detail in Chapter III.

Legal Basis.

In Western countries a commodity exchange is organised and registered as a corporation. In India, especially in the Punjab, most of the trading associations are private companies registered under Section 13, Indian Companies Act 1913, with limited liability on a profit-sharing basis. Associations registered under this Act, which are on a profit-sharing basis, collect the produce of members and sell in bulk, thus offering facilities arising from collective selling. A sort of agreement in the form of rules and regulations is framed in accordance with which the duties, functions, assets and liabilities and share of profits or losses are regulated. Members who have participated in the scheme share the profits and losses proportionately.

The others register under Section 26 of the Companies Act as companies operating on a non-profit sharing basis. They cannot enter into trading in any of its forms for or on behalf of their members, but merely control and regulate the trade, leaving it to the members to trade and transact business within the general framework of the regulations.

Personnel.

The members enrolled may be classified into several categories, either on the basis of the nature of functions they discharge or on the basis of the transactions they enter into. On the former basis, we get the classification into : (1) brokers, (2) jobbers, (3) wholesalers, (4) retailers, (5) importers, and (6) exporters. The latter classification according to the transactions entered into would give us two main divisions : (1) Hedgers, and (2) Speculators.

The members elect a president, vice-president and other executive officers who work in an honorary capacity, and a board of directors to exercise control over the working of the association or chamber.

Produce exchanges are not as strict as stock exchanges about excluding unauthorised persons, e.g. persons not possessing the badge or the card from the ring. The Bombay Stock Exchange does not permit any outsiders to go to the trading ring of the Exchange, but the Floor Rules of the East India Cotton Association and the

Marwadi Chamber of Commerce provide for the admission of members if they desire to be on the spot to direct their brokers in view of the variations in the market.

Nature of Commodities Handled in General.

The chief conditions needed for rendering any class of products suitable to be handled in an organised market are: (1) that a commodity must be homogeneous; (2) that it must be capable of being graded; (3) that it must be durable so as to last for the period of a "futures contract" (ordinarily not more than one year); (4) that the trading must be in sufficiently large volume to support the cost of facilities required; and (5) that there must be fluctuations in price, that is, the commodity must be one whose supply cannot be varied quickly by rapid changes in the rate of production; for otherwise the futures market will not be useful to hedgers and attractive to speculators.[2] Among the large variety of products traded in on commodity exchanges are grain, cotton, sugar, oilseeds, coffee, cocoa, non-ferrous metals, rubber, silk, jute, jute-bags, cotton-seed oil, rape oil, oil-cakes, shellac, pork products, pepper, wool tops, hides, wine, alcohol, etc.[3] To put it negatively, wholly or partly manufactured articles cannot be dealt with on organised exchanges since each variety of them does not form a sufficiently large homogeneous group which can be handled in bulk.

How Produce Exchanges Differ from Other Organisations.

The exact nature of the commodity exchanges will be seen more clearly if we compare them with other trade and commerce associations, e.g. Chambers of Commerce. There often arises a confusion between these because of similarities in nomenclature and, to some extent, of functions. For example, the Indian Chamber of Commerce and the Marwadi Chamber of Commerce are both styled "Chambers of Commerce," yet the former is just a commercial body, while the latter is also a produce exchange as defined above. The main aim of a trade association is to look after the general interests of the trade, and to promote the collective interests of the members, while a produce exchange is an organisation for trading. A trade or business association aims mainly at regulating the interests of the

2. *Trading in Futures* (International Chamber of Commerce), p. 12.
3. Marshall, "*Trade and Industry*", pp. 256-257.

trade. It facilitates the making of joint decisions on matters affecting all and it makes representations to Government or other public bodies in regard to matters of general interest to the trade. Commercial bodies like the Chambers of Commerce have as their members representatives of all trades and businesses and they function as a central body to safeguard the interests of these trades and businesses within a particular area, for example, a province in India. Further, trades and businesses commanding an extensive sphere have got their own associations. The members are those who are interested in that particular trade or business alone. In this manner, different trades have got their own associations which admit as members those who are interested in that particular trade and prescribe rules and regulations for direction of trade and frame a constitution whereby these objects are achieved. Contrasted with these bodies there are the commodity exchanges whose object is not only to direct the trade and safeguard the interest of the members but also to provide trading facilities; for example, a trading ring or a hall, where members can assemble and carry on trading. As they take up this additional responsibility, they are also liable to watch the market conditions and the fluctuations in prices and have to take care that periods of crisis adversely affecting the trade and business conditions in general are controlled.

Aims and Objects of Commodity Exchanges.

The general aims and objects of commodity exchanges have been stated as follows :

1. "To provide a convenient place for the members to meet for the purpose of trading and of exchanging views ;
2. "To collect and disseminate market information ;
3. "To establish and enforce rules and regulations designed to facilitate trade ;
4. "To establish and maintain grades ;
5. "To provide machinery for arbitration of trade disputes ;
6. "To aid in crystallizing market values."[4]

A commodity exchange is essential for a commodity which is produced in abundance and which covers a very wide field so far as trading therein is concerned. Traders or merchants cannot transact business in such a commodity at their own place and

4. Erdman H. E., *American Produce Markets,* p. 159.

for this purpose a place where they can meet in common and carry on the trade has been found necessary. A commodity exchange provides such a common meeting place and in order that the transactions made there may be uniform and in accordance with certain rules, contract terms and other necessary regulations are formulated. This enables the members to trade as extensively as possible but with certain prescribed units which safeguard the trade as well as the interest of the members. The following two examples will clearly demonstrate as to when an exchange performs the function of a trade association and at the same time of a commodity exchange. When some form of Government control of trading is imposed and the commodity exchange represents its views pointing out the inadequacy of the particular order, it functions as an Association. There are a number of such instances when the exchanges are called upon to function as associations in the general sense. Contrasted with this is the function given below which is purely that of a commodity exchange and which the trade association has not to perform. For example, when the prices have soared or have come down precipitately, placing the trade in a very critical situation, the commodity exchange either orders to stop business or fixes the maximum and the minimum price levels so as to avoid a crisis. This is what is called the additional and the more onerous responsibility of a commodity exchange.

Secondly, the exchanges collect and disseminate market information. This aspect consists of preparing statistical data as regards stocks, prices and weather conditions etc., useful in estimating price change. In the marketing of products producers and consumers are widely separated from each other. For example, the producers of wheat are in the Punjab and in Central India, of cotton in the Punjab, Central and Western India and the South and of oilseeds in the United Provinces and Central Provinces, H. E. H. the Nizam's Dominions, Bombay and Madras provinces and such other widely scattered areas. The consumers are either in the Presidency towns or even abroad, for example, on the Continent of Europe, or in Japan. Both parties are unaware of the future price of the product if there is no commodity exchange. It is on the commodity exchanges where representatives of buyers, sellers and operators meet and carry on trading that a definite price is fixed, and all tendencies relating to price levels are ascertained. The com-

modity exchanges disseminate this information to all interested. The information collected from the sellers, from the buyers, and from the operators is systematically collated, and transmitted, so as to keep the whole trade adequately informed. With the help of future quotations, dealers and manufacturers are enabled to make their purchases and sales with a high degree of certainty. The Chambers of Commerce and Industry especially in the West, have also their research bureaus, bulletins and publications. For this purpose they maintain a research staff to collect and co-ordinate data relating to the trade or industry as a whole. The object of such research departments or bureaus is to further the collective interests of the trade or industry they represent, by creating public opinion in their favour on controversial points, or by ventilating their common grievances and making suitable representations to Government. Their object is not to help individual members in their transactions, as is the case with commodity exchanges proper.

Thirdly, the exchanges establish rules and regulations to facilitate trade. The rules of the exchanges make the transactions easy and bring an understanding between the buyer and the seller. The rules define the members' duties and methods of transactions. They specify what is to be expected of each party in certain types of transactions. The necessity of such rules is felt in connection with futures trading so as to regulate the form of contracts between members, the delivery of particular grades in respect of such contracts, the function of warehouses, the deposit of security, etc. For the proper regulation of business transactions, particularly on futures exchanges, minimum commission and brokerage rates are fixed. They are either on a percentage basis or fixed as per maund, bale, cart or other unit of product.

Fourthly, the exchanges establish and maintain grades. The importance of the standardization of grades for the efficient and economical marketing of agricultural produce must have been felt at an early stage. The development in certain trade from samples to grades facilitated futures trading in goods. Grading places market quotations on a comparable basis and renders distribution easier at all stages. It removes the causes of dissatisfaction and dispute, and assists the course of business, since sales can be made at short notice on description only, and differentiation of grades enables the

producer to be remunerated according to the quality and condition of his grain. As a matter of fact, the present exchange methods would have been impossible without grades. Grading has, therefore, been a necessary part of the development of organised markets.

Fifthly, the exchanges provide machinery for arbitration of trade disputes.[5] The provision of machinery for arbitration of disputes arising out of any commercial transactions between buyers and sellers is as necessary as the establishment of rules for transaction of business. The rules of most commodity exchanges provide for an arbitration committee. Disputes are placed before this committee after the disputants have signed an agreement to abide by the decision of the committee, or in certain cases when an application is made by either of the parties for settlement of the dispute as per the general rules of the exchange. Arbitration rules are designed to ensure speedy and just settlement. The arbitration committee generally consists of able and experienced members of the exchange, as the disputes involved are of a technical character. It may also be mentioned that the rules of the arbitration committee do not allow a member to sit on the committee for disposal of a case in which he himself is directly or indirectly interested. This system is preferable to the one wherein disputes are settled by courts of law involving waste of a good deal of time and money.

Finally, commodity exchanges, according to our classification, aid in the crystallisation of definite market values. Commodity markets are connected with each other by telephones and other means of communication which provide the information necessary for the purpose. Various offers of purchase and sale from all the different regions come to the exchange through the representatives of buyers and sellers. The market operators or jobbers weigh this information in the light of their experience and effect transactions so that the price of a particular commodity at a particular time is said to be the result of mature consideration. Thus the factors of demand and supply are brought into contact and market prices established. On these markets even small changes in demand and supply influence the prices. Hence, the commodity exchange is a very sensitive barometer of the market situation.

5. By this term we do not mean industrial disputes or disputes between labour and capital but disputes in the handling of the trade as regards refraction, quality, etc.

Services of Commodity Exchanges.

In trying to subserve the above aims and objects the exchange renders certain services directly or indirectly not only to the members but also to the public at large. Let us see what these services are.

First of all, commodity exchanges supply producers, distributors, financiers, investors and consumers with a continuous market. The advantages of such a market at all times scarcely require emphasis. When there are no exchanges with organised facilities for business it is practically impossible to find a purchaser or seller at any time one desires. In a broad futures market, on the other hand, there is always an opportunity to sell or buy at some price at very short notice. This also saves producers from having to stock commodities, often at considerable cost. Further, because of the existence of such a continuous market, the commodity is given the quality of liquidity. It means there is assurance to all interested in handling the commodity that the commodity is practically synonymous with money, as it may be converted into cash at a moment's notice, or vice versa. Furthermore, the advantages of such a broad and ready market are not confined to those who directly use it. They also benefit the cultivators and the consumers as well. By referring to the level of prices on a commodity exchange the cultivators could decide as to what crops they should grow in the next season. Further, they could exercise caution in disposing of the produce at the harvest time by keeping themselves in touch with the information disseminated by the exchange. Finally, if agricultural marketing is well organised, the producer could be independent of the local agents and get into touch with the exchange where he would be able to dispose of his produce at a better price. This itself prevents the local agents from taking an undue advantage of the cultivator. So far as the "consumers" are concerned, they can estimate beforehand the price of the commodity for this is an important item in their cost of production which is to be passed on to the final consumer. They accordingly adjust their purchases as their interest lies in buying at the cheapest rate. Moreover, they are in a position to get the required grade, at a fair price. This would not have been possible, had there been no exchange.

The Absorption of Risks.

Secondly, an important service of a commodity exchange is the absorption of risks. By "absorption of risks" we mean the diminu-

tion—even elimination—of the effects of probable fluctuations in price by means of parallel transactions in two markets. Under modern large-scale production, manufacturers are obliged to contract for the delivery of their finished goods at a definite time and price, on the basis of orders accepted long in advance of their fulfilment. During the period of contract the manufacturer wants to avoid the hazard of speculative fluctuations in the price of the basic commodity essential to his business. He can avoid this hazard through the purchase of "futures" either from some owner of the commodity or from a short seller who for purposes of transaction is in no way different from a genuine seller of goods. In a sense the same is true of a trader. The trader is primarily concerned with getting a profit from differences of price in different markets. He buys in producer's market and sells in the consumer's. This difference between markets is constant and normal, in the sense that the price at the producing centre is low as the produce is sold in bulk and the price does not include the carrying, storage, interest and other charges. The price at the consuming centre includes all these charges and in addition a margin—which has nearly assumed a constant form on account of competition amongst several dealers, as the profit or remuneration of traders for their services. To ensure such normal profits, their desire is to escape the risks of fluctuation in the market where their goods are to be sold. This, to a large extent, the commodity exchange enables them to do. The traders usually purchase very large quantities of goods in the producing centres in season and store them. If the price of the goods purchased goes down, it is likely to involve the trader in heavy losses. In order that such losses may be avoided as far as possible he begins to sell forward in the commodity exchange when he finds that the forward price is higher than the purchase price. This enables him to retain his margin and on occasions to earn something in addition which constitutes speculative profit.

The Assumption of Risks

On the other hand by "assumption of risks" we mean the transfer of risks from one body of traders to another special type of risk bearers (speculators). As has been pointed out the manufacturer and the trader and, as we shall see later on, the hedger—all make an endeavour to minimise their risk by buying or selling forward on the commodity exchange. At a particular time the number

of buyers and sellers on forward terms are not equal nor are the quantities to be purchased or sold equal. Thus there exists a class of persons on the commodity exchange who are neither genuine buyers nor sellers, but are "operators" or "jobbers". Their main function is to assume the risk of the purchases of the manufacturers and the sales of the traders and hedgers. Their chief duty is to watch the market from time to time and free themselves of the risks they have voluntarily undertaken by making sales or purchases as the case may be either to genuine buyers or sellers who happen to come to the market in course of time or by making speculative sales or purchases looking to the price at the particular time. These operators or jobbers must have a strong financial backing as they are required to sell or purchase very large quantities. At the time the manufacturer, the trader or the hedger buys or sells forward, it is he who assumes the risk. Thus, by evolving this special class of risk-bearers, a commodity exchange helps in the absorption as well as assumption of risks.

Insurance by "Hedging".

The commodity exchange affords a useful method of insurance by means of "hedging" transactions. Hedging means the practice of entering simultaneously into two contracts of an opposite though corresponding nature, one in the spot or cash market and the other in the futures market. The contracts are opposite in nature in that one involves purchase and the other sale, but they correspond in regard to the quantity of merchandise covered.[6] For instance, an exporter who has purchased groundnuts in the mofussil or even in the terminal market with a view to export the same at some future date would desire to insure himself against the risk of prices going down, and accordingly he pays simultaneously a corresponding quantity in the forward market. This enables him to get a profit in the forward market if the price goes down, whereas in the ready market he makes a corresponding loss because his purchase price is higher than the actual price which he realises. The profits in the forward market are offset against the losses in the ready market. Similar is the practice with wholesale merchants who also buy in bulk and then hedge the goods in the forward market. Hedging differs from other forms of speculation in that its object is

6. Maynard, Weider, Beckman, *Principles of Marketing*, p. 444.

not to make profit on account of fluctuations in price but to ensure against loss which may result due to variations in price.

Hedging is effective only when superimposed on a market wide enough to absorb the hedges. It has been said that the market furnished by organised speculation, hedging and other forms of transaction made on the commodity exchanges represents "the most complete development of the competitive system and of democracy in trade as opposed to monopoly and concentration of wealth and power."[7] This can only mean that organised markets are an inevitable concomitant of capitalism resulting on the main foundation of competition and private profit. For, as to "monopoly and concentration of wealth and power" it is difficult to see how speculation on organised markets is "opposed" to them. It is true that on a well-organised commodity exchange there is close competition as between buyers as well as sellers. A small difference in price, difference of a few annas, would mean a rearrangement of dealers on the exchange as between buyers and sellers. For instance, one seller would think it worthwhile to sell at a particular rate while another would like to wait longer. A third may even be prepared to sell at a lower rate as the said level would appear to him rather profitable. Similarly a series of buyers are there with their own opinions about prices. Thus there arises a competition closer and more continuous than in any other markets. The price thus arrived at is the result of all these minute pulls on either side; it thus becomes a very sensitive index of the market situation. Even the biggest operators on either side of sale or purchase have to take into account the other factors operating in the market. They may be able, under certain conditions, to dominate the market, but normally competition is the keynote of dealings on organised exchanges.

The Financing Function

A properly organised market provides for an element of continuity in prices through time and in this way it affords the service of insurance for creditors. As pointed out above, the price at a particular time is the indicator of market situation and this aids the financiers in their function of extending credit against raw produce. Before giving credit naturally the financiers should be in a position to know every detail about the commodity. Had there been no com-

7. Brace, *The Value of Organised Speculation*, p. 225.

modity exchange, the old system of credit would have continued and there would not have been such extensive business as is done to-day. The financiers can get a very clear idea for their operations in regard to financing from the conditions prevailing on the commodity exchange, and they are thus enabled to work in a systematic way. This continuity of prices can be properly achieved only when there is a freely functioning market that is to say when no single buyer or seller can dominate the movement of prices. Enormous amount of credit is necessary to the movement of the nation's basic commodities through the various stages from producer to consumer. A class of persons exists in the forward market whose business is to assume and absorb risks which are attached to genuine trading in commodities due to fluctuations in prices. These persons with the support of the general public who speculate through them are enabled to invest large amounts of money in purely forward trading which has nothing to do with the actual commodities but which indirectly helps the stabilization of the whole genuine trade. The finance invested in such genuine trading, in bringing the goods from the producing areas to the terminal markets and in exporting increases as the volume of such forward trading by operators is enlarged because as the operators go on assuming and absorbing more risks, to that extent the risks of genuine trading will be shifted from the shoulders of genuine traders and business men who will be enabled to undertake their business on a larger scale. Thus investment in forward trading multiplies capital invested in genuine trading.

Liquidity of the commodity is an encouragement to larger loans by bankers as it is a safeguard to bankers. Bankers are willing to lend against commodities dealt with on exchanges.[8] Hedges protect a bank from serious loss, while unhedged commodities do not provide the same satisfactory security. Bankers take this risk because they know that the collateral can be sold at a moment's notice in a continuous market and also because they know from time to time their exact position and can sell the claim when necessary and get back the money.

The Arbitraging Service.

The transfer of hedges from market to market, according to the

8 Tiryugi Prasad, *Organisation of Wheat Trade in N. W. of United Provinces,* p. 26.

advantage offered at the moment results in a genuine arbitrage with a strong levelling tendency. Should the price in one market centre, considering cost differentials be out of line with the price prevailing in another market or centre, arbitragers will buy in the low market and at the same time sell in the high market, thus causing the product to flow from the place where it is needed relatively less to the place where the need for it is greater. This is an important part of the arbitrage business in raw produce. A considerable amount of business goes on in cotton, grain and oilseeds between Bombay, New York, Chicago and Liverpool markets.

Arbitraging transactions enable the traders to carry on such renewal or shifting in a much easier way as there are always differences in prices between different areas. Arbitraging transactions thus provide a wider sphere for minimising the risks and bringing the price to a uniform level. It is through these arbitrage operations that prices in different markets are kept in line with one another.

Comparison Between a Produce Exchange and a Stock Exchange

In essence, produce exchanges and stock exchanges are organised on the same lines. The types of transactions carried on in both are similar. So also are the objects and methods of work. It is remarkable, however, that historically produce exchanges were developed on the Continent before stock exchanges came into existence.[9] The reason is that produce exchanges form an important link in the actual process of marketing standardised raw commodities for which there is, under modern conditions of transport and communication, a world-wide demand. The development of stock exchanges is intimately bound up with the growth of the joint stock form of enterprise and the separation of management from risk-bearing. A stock exchange is an organisation for a transfer of the ownership—part ownership—of the capital invested in various enterprises without affecting the continuity of management. Shares may change hands as a result of varying expectations as to profitability but that need not affect the concern directly in question in regard to its management. Indirectly, indeed, as shareholders change, they could influence the policy of the company. The point is that so long as there are not sufficient liquid funds seeking remunerative investment channels, there cannot come into existence an organised institution to deal in scrips,

9. See Chapter II, p. 21.

through the continuous exchange, of which the yield on different kinds of capital investment is equalised. Moreover, it is only a few securities which command an international market. They are of great importance in big financial centres like London and New York, but, ordinarily, the industrial securities dealt with on an exchange as also Government securities have only a national market, especially in these days of Government control and regulation of investment. A produce exchange, on the other hand, attracts exporters as well as importers, producers as well as middlemen, from great distances inasmuch as the world as a whole is interested in securing these raw commodities at world prices. Even in this respect, however, tariffs and other restrictions do cut up markets, so that the prices of raw materials no longer tend to be the same all the world over. This at once indicates the possibility of a narrowing of the functions of commodity exchanges in a world of organised economic planning on national lines.

The main difference then between a produce exchange and a stock exchange is that whereas in the early stages the trading aspect was secondary in the case of the stock exchange whose main object was to enable people to get cash value as quickly as possible without in any way disturbing the running of the concerns in question, in the case of the commodity exchanges the trading aspect was the more important and the investment aspect only secondary. As time went on the trading aspect of the stock exchange also began to assume prominence when the funds to be invested exceeded the total value of shares available on the stock exchange. Still it remains true that genuine trade, local as well as international, is very closely related to the commodity exchanges. Forward trading on the stock exchange is, in a word, primarily done with a view to speculation rather than industrial investment. Trading on the commodity exchange on the other hand begins with genuine trading, assumption of risk and absorption of risk, and ends again with genuine trading. The difference is, however, one of degree only, for it is the essential characteristic of all futures markets that the transactions carried through on their floors are always much greater than the actual volume of commodities traded in. This speculative aspect takes control of the market when the genuine buyers and sellers lose confidence and get nervous as to what they should decide under particular circumstances. Since the stock exchanges make it possible to dissociate financial from genuine industrial undertaking, they have

a greater attraction for the lay public anxious to profit from the small variations in the prices of scrips.

Commodity Exchanges Under the Present Economic System.

A commodity exchange then is a central institution upon which are unloaded the risks attached to trading of traders, merchants, commission agents, exporters and jobbers. These risks are within the period of settlement evenly distributed in such a manner that a layman is surprised to see as to how the risks were assumed, by whom they were assumed and at what periods of the settlement such voluminous risks were absorbed. More surprising and interesting is the way in which huge finance is utilised in making adjustments from time to time for absorption of risks. The real test of a commodity exchange lies in its capacity to absorb risks, rather than to assume risks, and when such risks as are assumed are not absorbed, the breaking point or as it is generally called the crisis occurs and business on the exchange has to be suspended till normal conditions are restored. Raw materials produced in lakhs of tons in an agricultural country like India and worth some crores of rupees in value are smoothly transferred from the producing area to distant countries abroad with the aid of commodity exchanges. From the time the crop begins to be sold till the time it is finally consumed the commodity exchange is an indicator of the price of the commodity. This efficiency which is intrinsic rather than brought about by any external rules or regulations—the efficiency with which all the factors, direct or indirect, nearer or remote, which play their part in determining the price of a commodity are simultaneously and immediately taken into consideration—baffles even the imagination of a calculating economist. From the smallest bit of information to the most vital one is available on the exchange. Though the exchange appears to function for a few hours a day, its working continues to throb like the human body for all the twenty-four hours and within this period, before the opening of the next day, the economic forces are analysed and their value ascertained. Experience, expert knowledge and quickness of judgment are the qualities required of the persons operating on the exchange and it is to the credit of their efficiency that the exchange functions like a machine with all its wheels and parts well lubricated by necessary finance. An exchange is thus a delicate piece of economic mechanism which allows full scope to the economic forces to play their part and exert their in-

fluence. It is for this reason that when an exchange is sought to be controlled by Government, the economic forces which are then prevented from operating to their fullest extent have to be taken into account.

Although all exchanges may at first sight appear to function on similar lines, so far as price determination of the particular commodity is concerned, on closer examination they reveal differences which are of interest and significance for the student of the subject. This, we hope, will come out clearly in our examination of the organised exchanges dealing with different commodities like wheat, linseed and groundnut.

Abuses : Economic and Social.

Like all delicate mechanisms the produce exchanges are liable to abuses. These occur when deliberate attempts are made by interested parties to manipulate prices in their own interest either by spreading false rumours or by entering into fictitious transactions. These manipulations take the form of 'cornering' or unloading. They are possible only when the market takes a cue not from genuine information but from whether X or Y—with some reputation and standing—appears as a seller or a buyer. As a result of such abuses, speculation has become a dreaded word, synonymous with unworthy desire for making gains, often associated with unscrupulous practices.

Speculation and Gambling.

There is thus only a thin line between genuine speculation and gambling, and the task of distinguishing between them is one of almost insuperable difficulty. The element of gambling, meaning reckless speculation motivated by a "get-rich-quick" mentality, is particularly strong when the lay public is allowed to operate on the exchanges.

The part played by the public who are neither operators, who assume and absorb the risks, nor hedgers requires to be explained. There is divided opinion on this point. Some hold the view that the great financial backing which an operator requires and the large number of transactions over which he has to spread the risk which he has undertaken come from the public and without their help the exchange cannot function as it does. Others there are who maintain that the public who do not give or take delivery, who have not seen

the commodities and cannot distinguish between them should not be entitled to trade on the exchange. However, from the point view of finance a via medja can be found out and it must be so arranged that a certain margin should be placed with the broker before trading can be allowed to the public or the unit of trading might be raised. It is often the case that the operators take advantage of the ignorance of the public about the methods of exchange, or the public having small means have to square up the transactions when prices go against them. Moreover, it is the general belief of the public that if Teji-Mandi transactions are made, so as to limit the risk by paying the premium, they will gain on the exchange.[10] This however rarely happens because the operators make the minutest calculations and do not allow the prices to go beyond or below a certain level. Thus the public in their passion for speculation stand to lose if they do not exercise sufficient caution.

The Problem of Control.

It is defects like these which raise the problem of control. It would be premature to discuss the same here.[11] Partial and haphazard controls within the framework of a capitalist society resting on freedom of contract and the profit motive can only drive the evil underground. In general, there is a consensus of opinion amongst economists that at least the glaring abuses of speculation can be avoided with a better dissemination of market intelligence and a general improvement in business practices and morality.

10. See Chapter III for Teji-Mandi Transactions.
11. The problem is discussed in Chapter XI.

CHAPTER II

GROWTH OF COMMODITY EXCHANGES.

HAVING examined the function of commodity exchanges under the present economic system of large-scale commerce, and worldwide trade connections, we may turn to the origin and development of these institutions in some of the industrially advanced countries of the West and in India.

In the Middle Ages, markets in European countries were held under the auspices of the monasteries or manors under the direction of kings, nobles and other such influential persons. Periodical fairs were also held where exchange of goods by way of sale and purchase was effected and according to Clive Day "these fairs served as a barometer of the prosperity of commerce."[1]

With the break-up of the feudal system towns grew up and simultaneously the marketing machinery of the times which would appear to be rather in a skeleton form as compared to the one existing today was called upon to meet the requirements of a larger population. As we are concerned with the development of exchanges we shall confine our attention to those commodities traded on on an exchange at present. With the development of towns, instead of kings and nobles, municipal bodies played the role of guiding authorities. They gave facilities to merchants to obtain their grain supplies, took stock of supplies held by millers and when circumstances permitted even undertook the business of buying and storing grain. The system of municipal granaries continued in England throughout the period of the Tudors and Stuarts.[2] In course of time, a sort of division of control naturally developed. Craft guilds came into existence as population grew larger and upto the seventeenth century we find, that these craft guilds played a prominent part in assisting trade and commerce.

Capitalism and Exchanges.

About the middle of the eighteenth century modern capitalism began to develop, and this marked the end of the old system of trading.

1. Clive Day : *A History of Commerce*, p. 64.
2. Hibbard B. H., *Marketing Agricultural Products*, p. 115.

wherein too many functions were done by the same body or under the same system. With the advent of capitalism the trade was transferred from the hands of collective bodies to those of private agencies which in the beginning attended to trade in a number of commodities, but subsequently with the development of trade came to specialise in particular commodities only. This specialisation was the necessary consequence of modern methods of production, handling of goods and marketing.

Brief Historical Survey of Commodity Exchanges in England.

With the economic and industrial revolution the demand of the population for raw materials increased. During the eighteenth and nineteenth centuries the foreign trade of England grew very extensively by reason of her industrial supremacy and command of the seas, and private capital came to be collected and utilised not only for industrial purposes but also for trade and commerce. On account of England's supremacy and command of the seas, raw materials were brought from distant countries in return for manufactured goods. Not only the number of buyers increased but along with it the quantity purchased by one agency or a group of persons increased. Prices became the guiding factor in economic transactions and relationships and it was found necessary to devise an institutional machinery to safeguard the producers and dealers in staple commodities from the risk of loss due to unforeseen price fluctuations. Production in anticipation of demand was liable to be too speculative in the absence of some organisation to take over the speculative aspect. Commodity exchanges in the form we see at present were not developed like an invention or a discovery suddenly put up on the market but are the result of the adjustments made from time to time through experience in accordance with needs of the moment in the already existing systems of practice in trading.

The Royal Exchange.

Amongst the exchanges in the City of London, the Royal Exchange[3] is one of the oldest. Its history dates from the sixteenth and the seventeenth centuries. At that time traders just like other professionals used to meet in coffee-houses and inns, and negotiate on

3, Annals of the American Academy of Political and Social Science : Organised Commodity Markets, May 1931 p. 196.

trade matters. It can be thus seen that a central place, where merchants could assemble, was as great a necessity in those days as it is at present. When this was the case, one Gresham built "at his own cost and charge, a comely bourse for merchants to assemble upon on a site near Lombard Street and Cornhill in the City," which is called the Royal Exchange. An exchange was thus a central place where merchants would meet and transact business in many commodities. This Royal Exchange was the first to develop of a whole group of well-known markets. Lloyd's with its pre-eminence in marine insurance, the Stock Exchange, the Metal Exchange, the Baltic Mercantile and Shipping Exchange, the Wool Exchange, the Foreign Exchanges, and the various produce "walks."

The Baltic :

Amongst the above exchanges we are more concerned with the Baltic as it has now assumed the form of a full-fledged commodity exchange comparable only to those existing in America and far more developed and comprehensive in business than any existing in this country. The Baltic Exchange has its history traceable to a group of merchants engaged in trade to the Baltic ports of Russia in the middle of the eighteenth century. From that period onwards the "Baltic" developed its activities and today it controls and offers facilities for trade in grain, oil and other products. The Baltic is a sort of International Exchange and differs from the Indian Exchanges in this respect, that it is very closely associated with the consumers' end of the trade rather than with the producing areas. The producing countries are situated in North or South America, in Africa, in India, or in China, some thousands of miles away from where goods are received at the Baltic. Specialization in distinguishing the particular grade of a commodity and its value to a particular industry or manufacture receive special attention at the exchange in order that every commodity should have its price according to its quality. The Indian export houses have their agents to represent them on this exchange and the same is the case with other countries. Reliable standards of trading are laid down and keen competition prevails as all the producing countries cater for supply. This specialization has to a great extent influenced the Indian exchanges and modifications have been made in the methods and terms of contracts so as to bring them in line with those prevailing in that exchange.

State Control of Continental Exchanges.

Contemporarily with the exchanges in London, there was at Antwerp a great bourse or exchange. Pepper was the first commodity to be traded in on this exchange. Trading, however, declined for some time on this exchange, as according to Clive Day, "the volume of trade was not large enough to cause a steady and continuous flow of wares in contrast to the spurts that marked the period of the fairs." [4] However, later on, the trade developed in many other commodities and before the present war, Antwerp quotations were also a guiding consideration in the fixing of the price of oilseeds in India. Similarly, Amsterdam developed a great bourse or exchange where transactions in grain were mostly done. In those earlier days along with trading in grain, trading in stocks of corporations was also being done and an association of security dealers was formed in the later years of the nineteenth century for this purpose. By this time the foreign trade of England and also of other continental countries like Germany and France had developed greatly. Along with this expansion in trade there arose the necessity of central meeting places for merchants and traders and as the exigencies of the time required exchanges were set up at several places.

The exchanges in Europe especially in Germany and France are controlled by the State. The circumstances which led to the enactment of the German Exchange Law (the Exchange Act) arose from the failure of certain banks in Berlin in 1891, which misused their deposits in rather rash speculation on behalf of customers who were mainly the non-trading public. In 1892, the Imperial Government appointed a commission to consider the whole question of the bourse, and of speculation that took place there. The report of this body, which appeared towards the end of 1893, recommended certain statutory and administrative changes. The Reichstag at the time was controlled by the Agrarians, or rural party, which had substantial influence over the Government. This party was naturally dissatisfied with the low prices then prevailing for all agricultural produce. It blamed the system of future delivery on the ground that it allowed the short seller time to get in his supplies from abroad, and thus, by favouring imports and increasing the available supply, to depress prices. The Imperial Government passed the Exchange Act which

4. Clive Day : *A History of Commerce*, pp. 154-55.

came into effect on January 1, 1897. This law was modified in certain details in 1908, especially in those pertaining to commodity exchanges.

Following the same distinction in character that is found between British and Continental Chambers of Commerce we can say that the Royal Exchange, originated from voluntary Association, is self-governing and derives its effective powers from custom and not from statute. On the other hand, the French " Bourse-de-Commerce" works under strict Governmental control.

The Rise of Exchanges in America.

In the United States, the beginning of modern exchanges may be traced remotely to the fairs of the thirteenth century, for although there is little or nothing in common between the two organisations, they were both " born of the same economic necessity.[5] According to Hibbard, the first beginnings of an exchange were in the seventeenth century, with the foundation of the " Royal Exchange and the Metal Exchange " of New York. With the increase in America's trade in foodstuffs with Europe arose the necessity of organising the internal trade also.

The Chicago Board of Trade.

The Chicago Board of Trade, the first American Grain Exchange, was organised in 1848 with a view to framing rules for the regulation and systematisation of the trade. The futures market of the Chicago Board of Trade evolved from the grain trade practices of the time. Widespread speculation during the latter part of the decade 1850-60 greatly stimulated its development. Its prototype was " to arrive " trading which came into common use on the Chicago market about 1850. The " to arrive " contract was gradually standardized as trade needs required and, in standardized form, it proved an excellent instrument for speculation. From this there developed the highly mobilized continuous market characteristic of present-day futures trading. The other exchanges adopted this new method of trading, following the example of the Chicago Board of Trade, and with such changes as they found necessary to meet their own needs. At present the market of the Chicago Board of Trade is the leading market of the world for a number of commodities like grain, oilseeds, oils, cotton, etc.

5. Baer J. B. and Woodruff G. P., *Commodity Exchanges,* p. 22.

Unlike the Indian exchanges, the trading floor of the exchange is provided with means of securing market information, rapidly and accurately, and of disseminating market information to all interested parties. Besides it is equipped with hundreds of telephone and telegraph instruments. Large blackboards display important Governmental reports concerning the condition and supplies of crops and current quotations from other leading exchanges. Accommodation is also provided for newspaper representatives. In short, the factors affecting either supply of, or demand for, grain are quickly noted and made public here.[6]

Other Markets.

The flour and grain merchants, dissatisfied with the inconveniences of having to go to Wall Street to settle their contracts, organised in 1852 the New York Corn Exchange. The New York Produce Exchange was organised in 1850 and incorporated in 1862. The Kansas City Board of Trade was organised in 1869, the Minneapolis Chamber of Commerce in 1881, the New York Cotton Exchange 1870, and the New Orleans Corn Exchange in 1871.

Exchanges, as we have pointed out above, are not totally new institutions set up for the trade but they mark a systematic growth from small beginnings. Their evolution owes much to foreign trade because in those times as foreign trade developed uncertainties regarding delivery and the risk in respect of price fluctuations came to be realised more acutely. With the growth of foreign trade internal trade expanded and necessity was felt for common meeting places of traders and as the trade assumed technical aspects, contract forms and such other details came to be worked out. Generally, an exchange was set up either at the producing centre, or the ports of despatch or arrival. In course of time, however, on account of the spread of the speculative habit exchanges were started at every town or city of some significance. Too many exchanges increase out of proportion the load on the market as ultimately actual sales and purchases will be equal to the quantities of the commodity offered. But there is this advantage in multiplication of exchanges that it helps price fluctuations and assists in making adjustments when risks are spread over the period of delivery. Regarding the other methods of transactions which

6. Clark. F. E. *Readings in Marketing*, p. 555.

are observed on the exchanges, they are evolved according to the requirements of the time. To-day the position is reached when all exchanges are working more or less similarly and transactions between one country and another by cable are also feasible.

Trading Corporations in India Before the Advent of British Rule.

Let us now turn to developments in India. While institutions along modern lines like the Chambers of Commerce are of recent origin, we have evidence that there existed in the eighteenth century and even earlier trade associations, known as Mahajans, at all the important ports and commercial centres in India. As in Western countries so in India also foreign trade played a very important part in the gradual growth of exchanges. In those days Surat and such other centres were commercial ports and direct trade connections with foreign countries existed. Traders from those countries used to visit these centres and a number of traders also carried their merchandise to foreign countries. Accordingly in the hearts of such cities some safe place where cash could be exchanged was selected and at these places the merchants interested in different trades collected together and completed their business. On account of the constant fear of raids by robbers or some ambitious princes, safety was the first thing that was cared for and in some cases dark and narrow lanes were selected for business purposes. However, a prominent feature of the Mahajans of those days was that they were based more on communal than on trade basis. Persons belonging to a particular community followed a particular trade and the Mahajans were not only the controlling institutions in regard to trade matters but also social matters. Integrity and honesty were thus enforced by the rules of the Mahajan and defalcations were thus avoided. It is really to the credit of these Mahajans that they enforced their rules more strictly and the members obeyed the rules more implicitly than perhaps even the present better organised trade associations are capable of doing. Moreover, the Mahajans attended also to *Sharafi* and banking. These Mahajans performed duties similar to those of our present Chambers of Commerce. They had their general, unwritten laws which were honoured by all in the trade. It also appears that in the eighteenth century there were at ports in India commercial firms from Gujarat, Kathiawar, etc., which did import and export business on a

fairly large scale. The merchants and underwriters at all ports relied upon Mahajans for the control and regulation of business. The decisions of the Mahajans were accepted universally. Regarding ready business, both wholesale and retail, goods were taken delivery of and shipped under terms which were in vogue for a long time. In case of need, which was very rare, the terms were modified by mutual understandings between leading buyers and sellers who used to meet on such occasions. There were no written rules or authority governing the procedure, but the decision arrived at was as a rule honoured by the trade. Not only ready business but forward delivery business was carried on in those days.[7]

Role of Export Firms Before the Great War 1914-18.

This system of regulation of trade by Mahajans continued till the middle of the nineteenth century and thereafter the trade began to develop at the big ports at Calcutta, Madras, Calicut and Bombay. With this diversion of trade to big ports the Mahajans were also formed at such places with this difference that the social aspect lost its importance and the commercial aspect assumed prominence.

At the beginning of the 20th century, the export trade in cotton, grain and oilseeds was controlled by a few foreign firms, e.g. Ralli Bros., Volkart Bros., Lois Defrus and Company, etc. They maintained a widespread organisation of upcountry buying agencies at most of the important markets in the interior. Thus they made direct contracts with the producer and purchased at better prices than in the central markets. Thus every year a large amount of saleable surplus was purchased in the villages. The firms being financially strong used to pay the producer in cash. The interior branches were in direct communication with the head office as regards buying limits. The process of buying by export firms had an important effect in stabilising or at least co-ordinating prices in the different markets in the country. The merchants at the time did not feel the need of "hedging" the stocks nor was it essential since a regular outlet was almost always available in the shape of the export demand and the merchants or the export firms were always in a position to sell at a profit over the purchasing price.

Consequently the export firms did not find any necessity for the formation of an organised market. The same state of affairs continued

7. Jubilee Number of Karachi Shippers and Buyers Association, p. 2.

till the beginning of the War (1914-18) when the whole economic system had to adjust itself to the exigencies of the war.

The Great War 1914-18 and its Effect on Organised Markets.

The Great War (1914-18) disorganised the normal channels of trade. Speculation increased due to dislocation of transport, import and export restrictions and other handicaps due to the prevailing uncertainties. In case of those commodities for which there was demand higher prices were offered because what was wanted were the goods and any price was paid to purchase them. All these factors combined and hence the degree of uncertainty and as a result the element of risk increased. There were very few markets in the country where organised trading was carried on under proper rules and regulations. Defaults were a matter of common occurrence. With the exception of the East India Cotton Association, Limited, there was hardly any association with well-defined rules and bye-laws. This state of affairs was favourable more to gambling than to speculation proper through bonafide transactions and hedging.

This state of affairs continued during the course of the war and by the time the war ended the old system had definitely broken down in the big terminal markets. The increased demand for capital drew the hoards into the market, while the demand from abroad for goods afforded the necessary opportunity for investment. Within the country itself an impetus was given to industrialisation and consequently the demand for capital increased. In place of the old system when the goods were either purchased from the mofussil or in the terminal market and exported, a new system came to be established which had to face not only competition in foreign countries but also price-risks in the country. The market for the various commodities had to be organised properly. This was necessitated by the post-war slump in the internal market also. The rapid expansion of the Indian industrial structure received a setback after the hostilities ceased. This naturally led to a contraction of the effective demand inside the country. Till about 1924, the same state of affairs continued, when a slow revival of trade put a stop to the downward trend of prices. By 1929 a sort of boom had developed the world over. Again the crash of 1929 sent the prices down steeply. This series of changes made it imperative that commodity markets should be established in the country. This was the reason why exchanges in this country developed within a short period

and why it was easy to set up one exchange after another in places where trade necessities required it, or the over-enthusiasm of the speculators desired so.

Principal Commodity Markets in India.

The principal commodity markets in India are the cotton markets of Bombay, Karachi, Ahmedabad, Indore; the wheat markets of Bombay, Hapur, Karachi, Lyallpur, Amritsar, Okara and Calcutta; the groundnut markets of Madras and Bombay; the linseed markets of Bombay and Calcutta; Jute and Hessian markets of Calcutta; Bullion markets of Bombay, Calcutta, Delhi and Amritsar; Sugar markets of Bombay, Calcutta, Cawnpore and Muzaffarnagar. The latest available [8] information regarding the total number of futures trading associations in India is summarized below :

Province or State.	Number of futures trading associations
Punjab	105
United Provinces	39
Bombay	12
Bengal	6
Sind	3
Central Provinces	1
Patiala	7
Baroda	6
Hyderabad	2
Gondal	2
Sangli	1
Total	184

Grain Trade Association in the Punjab.

As shown in the table above, out of 184 futures trading associations in India at present 105 are in the Punjab. This is an unusually large number and there must evidently be some special explanation for the same. The reason for this multiplication in the

8. Office of the Agricultural Marketing Adviser to the Government of India, Old Delhi.

Punjab is that the different producing centres, each of which produces and distributes large quantities of wheat to the several other parts of the country, wanted to obtain the advantages of price fluctuations in the terminal markets more speedily than would have been possible had there been no exchanges. Instead of the trade in the producing centres being exploited by financiers of the consuming areas, the financiers of the place by setting up the exchanges created a sort of monopoly and were in a position to dictate their own terms. However, rivalry amongst traders and mutual ill-feeling undermined the main idea and more exchanges were started than was necessary. Had the number been restricted to a reasonable limit the trade in the Punjab would have been systematic and it would have helped the exchanges in the terminal markets.

In the producing areas real trading begins after the produce is brought from the villages to the local market towns where the local financiers who are also the traders store it in *kothas* i.e. a sort of underground godowns. Nowadays, however, pucca godowns of the type seen at the ports have also been erected in some places in the Punjab. Each *kotha* contains a certain quantity of a particular quality. This system of storing in the *kotha* and trading on its basis has now extended to practically all producing centres. In the Punjab, transactions were done on the exchanges according to the quantity stored in the *kothas* in the area and this quantity served the purpose at delivery periods. This *kotha system* gained more importance as a trading system from the time the exchanges were started and there was a general feeling not to allow the terminal market financiers to exploit the producing areas. When the trade at the ports increased and as a result scarcity of godown accommodation was felt, the financiers of the terminal market also followed the practice of purchasing in the mofussil and storing in the *kothas*. The trading on *kotha* system means a system of sales when the basis is the *kotha* (godown) filled with grain.[9] After a *kotha* (room or godown) is filled its owner prepares a warehouse receipt known as *bichak* which specifies the quality and the amount of grain, and the location of the *kotha*. *Bichak* is a negotiable warehouse receipt. On payment of about 10 per cent. of the value only, the exclusive rights in grain stored in a *kotha* are acquired. A

9. Tiryugi Prasad, Organisation of Wheat Trade in the North-Western Region, United Provinces, p. 25.

bichak may change hands several times before the actual delivery of the grain. For instance X has a *kotha* of wheat. It can be sold by Y by charging only 10 per cent. of its value as earnest money; the balance being payable on the date specified in the contract, when the produce would be delivered. Y in turn can sell the same *kotha* to Z on the basis of his contract with X receiving 10 per cent earnest money of the value calculated at the time of making the contract. Similarly Z can sell the *kotha* to A on the same terms; the transferee desiring to take actual delivery of the same turns to X the original party.

"With the advent of organised exchanges, the increased efficiency of their working and the elimination of uncertainty in respect of enforcement of contractual obligations, formerly associated with speculative operations, *bichaks* are fast losing ground for the purpose of trading on the exchanges." [10] But so far as genuine trade is concerned the *kothas* save a great deal of labour for the purchasers as regards quantity and quality.

The Amritsar Produce Exchange Limited has evolved out of some old institutions like the Sham Sunder Trading Company Limited, Lyallpur, and others which were started after the last war either for settling of disputes or of conserving the profits of the trade of the producing areas. From time to time adjustments were made and the present Amritsar Produce Exchange Limited is working on the lines of a modern exchange.

Mushroom Growth of Trading Associations in the Punjab.

The mushroom growth of trading associations in the Punjab is due to the method of operating on a profit-sharing basis. The dividend offered is tempting for others to start a new exchange. The Report on the Marketing of Wheat in the Punjab published by the Punjab Government gives a vivid picture of the mushroom growth of trading associations in the Punjab. "By the end of 1925, there were twelve exchanges functioning in the Province while the number rose to 50 and 112 at the end of next quinquennium respectively. The greatest increase in numbers took place in the years 1932-33 when fifty-one new exchanges were registered." These associations are not financially sound. They lack experienced management and

10. Some Factors Affecting the Prices of Wheat in the Punjab (Punjab Economic Investigation Bulletin No. 49) p. 58.

their working reveals serious irregularities such as non-observance of rules on the part of the members.

We have given at the end in Appendix "A" to this chapter particulars about some important associations in India regarding units of transaction, margin money, their sources of revenue, profit and loss, total volume of trade in the commodities traded at these associations and proportions of "futures" contracts settled by actual delivery. We must make it clear that many of the institutions referred to in this list are not commodity exchanges in the proper sense of the word. Commodity exchanges do not trade on their behalf, while a large number of these associations especially in the Punjab and United Provinces enter into trade. They are called Produce Exchanges or Trade Associations in the Report on the Marketing of Wheat in India published by the Agricultural Marketing Department of the Government of India, mainly because they also make it possible for members to enter into speculative transactions.

Most of the commodity exchanges deal in more than one commodity and the names of the various commodities dealt in by each is given in the contract form. The commodities generally included in the contract forms are wheat, gram, barley, linseed, rapeseed and toria, groundnuts, castorseed, cottonseed, sugar (refined) and gur (jaggery), cotton, jute, and in a few isolated instances, certain millets and peas. Ghee futures are also traded in one or two markets. All the commodities mentioned in the contract form of an association are not, however, actually traded in. For instance, in the Indian Exchange Limited, Amritsar, actual trading takes place in wheat and gram only although its contract form includes toria, sugar, cottonseed and cotton also. In some of the produce exchanges, only one commodity is traded in. The importance of the commodity traded in varies with the locality. For instance, at Bombay, the most important futures market is concerned with cotton. Considerable business also takes place in wheat, linseed, groundnut and castorseed. At Karachi, the range of agricultural commodities involved in futures trading embraces cotton, wheat, gram, barley, toria, cottonseed and rapeseed. Only recently, an association called the Madras Groundnuts Association has been formed at Madras for facilitating futures trading in groundnuts.

The terms and conditions imposed by these associations on their members and on all the transactions coming within their purview differ only in details. For example, the wheat tenderable is describ-

ed, the months of delivery are specified, and the settlement dates, conditions and points of delivery laid down.

As regards the unit of trading, it varies considerably from 125 maunds at Sonepat to 25 tons (approximately 680 maunds) at Karachi and Hapur, in the case of wheat, gram, barley and certain oilseeds. The normal unit for cotton at Bombay is now 50 bales, but it was formerly 100 bales in the East India Cotton Association. This change was effected by this association, in order to compete with its rival, the Shree Mahajan Association, which had the smaller unit. The latter institution also operates a 10 bale contract. Appendix "A" to this chapter gives the unit of transaction and the amount of "cover" or margin money to be deposited by the parties concerned. The basis of refraction which is an integral part of the contract is also fixed and the terms govern deliveries made against "futures" contracts.

Hapur Chamber of Commerce.

The next important province having the largest number of exchanges is the United Provinces. As given in the previous table the number is 39, out of which the Hapur Chamber of Commerce is the most important from our point of view. The Hapur Chamber of Commerce was established in 1923. It is a non-profit sharing association, and acts as a registering and clearing body. It has a membership of 200. It has been a spot and futures market from the very beginning. There are brokers who act between two parties. The members of the Chamber act as commission agents and principals and agents on behalf of others.

Groundnut Merchants' Association, Madras.

Before tracing the growth of the commodity exchanges in Bombay mention must be made of the groundnut trade at Madras. Madras is the leading centre of production and distribution for groundnuts in India. Up to this time there was no hedge market at Madras for groundnuts. In March 1941, the hedge market was opened at Madras under the auspices of the Groundnut Merchants' Association. Its importance is due to the fact that Madras is a leading groundnut producing centre in India. The following figures for the last five years of groundnut production in Madras Presidency as compared with India will give an idea of the importance of groundnut trade at Madras.

TABLE I. [11]

PRODUCTION OF GROUNDNUTS (NUTS IN SHELL) IN INDIA AND IN MADRAS PROVINCE

(Figures in thousand tons.)

Year	India	Madras	Percentage
1936-37	2,714	1,202	44%
1937-38	3,501	2,059	50%
1938-39	3,219	1,613	50%
1939-40	3,165	1,703	53%
1940-41	3,405	1,761	50%

Commodity Exchanges in Bombay.

India's foreign trade was handled and controlled as mentioned earlier by some seven or eight European firms at the port centres, and some Indian firms worked as *mukadams* to them. In Bombay before the commodity exchanges began to function in the real sense of the word, trading similar to that of exchanges was being done at several places on the basis of customs and conventions rather than prescribed regulations. For cotton, there was the market at Colaba and for grains and oilseeds the market was at the place where the present Seeds Traders' Association is situated. According to the requirements of the exporters delivery transactions entered into and the merchants who, either stocked the goods at Bombay or had their own commission agent firms in the mofussil, supplied the goods including in the price some charge also for the risks attached to their business. This system continued upto the end of World War I (1914-18) during which the commodity exchanges began to function systematically.

Cotton Trade.

The East India Cotton Association established in 1921 is the most important commodity exchange so far as Bombay is concerned. It controls forward and ready trade in cotton and possesses all the attributes of a modern commodity exchange. The ready trade in cotton is now transferred from Colaba to Sewri where there is the magnificent building containing a very big hall for trading purposes and offices of the merchants, *mukadams* and textile mills. The futures trade is carried on in the building of the East India Cotton

11. Report on the Marketing of Groundnuts in India, p. 345.

Association at Kalbadevi Road, where also such facilities exist. There is another association called the Shree Mahajan Association in Bombay which also trades in cotton. This Association has of late adopted a systematic form of trading on the basis of trading going on in the East India Cotton Association, Limited, but the unit of trading has been kept low at 10 bales so as to provide facilities to merchants of small means. Transactions worth crores of rupees are carried out at these exchanges, and they link the cotton trade from the producing areas to the consuming areas. [12]

The Grain and Oilseeds Trade.

Trade in grain and oilseeds was carried on for a considerable period on a customary basis meaning thereby that instead of well-defined rules and contract terms, transactions were put into effect on the basis of customs prevalent since a long time in the trade. The Grain Merchants' Association supervised this trade and according to the requirements of the times also drew rules and regulations and formulated contract terms whenever necessary and introduced certain systems of trading. However, there was more of custom rather than of rules in this trading. In the beginning, there was nothing like a commodity exchange though "futures delivery transactions" were not unknown. A few years later, a body of Gujarat and Kathiawar merchants was formed called "the Gujarati Vyapar Mandal" to carry on forward trading in oilseeds. Thus in the beginning these two bodies looked after the trade in grain and oilseeds.

VOLUME OF DELIVERIES (IN BALES) ON FUTURES CONTRACTS ON BOMBAY COTTON EXCHANGES.

(Year ending 31st August)

Season.	Deliveries.	Receipts into Bombay (Rail & Sea).	Approximate Indian Crop.
1936-37	146,150	3,129,329	7,348,000
1937-38	160,750	2,553,178	5,544,000
1938-39	74,700	2,354,647	6,875,000
1939-40	121,800	2,247,957	5,830,000
1940-41	339,200	2,836,943	6,601,000
1941-42	346,800	1,963,810	5,980,000

12. (Bombay Cotton Annual 1941-42), p. 26.

When trade expanded at the port of Bombay and the number of Marwadi merchants and business men carrying on trade at Bombay increased, it was found necessary that their interests should be safeguarded. So they formed "the Marwadi Chamber of Commerce, Limited" which looks after the trade interests of its members. As there was no commodity exchange worth the name for wheat and linseed, in which these merchants were considerably interested, the Marwadi Chamber of Commerce conducted under its auspices such an exchange for wheat and linseed.

As trading at the Gujarati Vyapar Mandal and at the Marwadi Chamber of Commerce, Limited, increased, the Grain Merchants' Association lost its importance as a forward trading institution. The latter from the very beginning was interested primarily in the ready trade, and futures transactions were made with a view to protection rather than speculation and this sort of mentality exists even to the present day. So far as ready trade is concerned the Grain Merchants' Association retains the premier position in the grain and oilseeds trade of Bombay.

After the Great War (1914-18), oilseeds attracted the attention of foreign countries and attention was focussed upon India as one of the main oilseeds producing country. The following table will give an idea of the increase in production of oilseeds.

TABLE II[13]

PRODUCTION OF OILSEEDS IN INDIA

(Figures in thousand tons.)

Average 1920–21 to 1924–25	Average 1925–26 to 1929–30	Average 1930–31 to 1934–35	1935 to 1936	1936 to 1937	1937 to 1938	1938 to 1939	1939 to 1940
3,065	3,941	4,457	3,993	4,665	5,552	5,091	5,247

The export trade in oilseeds also increased after 1920 as can be seen from the following table :

13. Area and Yield of Principal Crops in India, 1915-16 to 1939-40.

TABLE III.[14]

EXPORTS OF OILSEEDS FROM INDIA

(Figures in tons.)

Year	Quantity.
1919—20	824,988
1920—21	624,272
1921—22	734,674
1922—23	1,177,033
1923—24	1,255,116
1924—25	1,328,458
1925—26	1,249,538
1926—27	837,590
1927—28	1,209,973
1928—29	1,328,410
1929—30	1,195,202

The Indian business men finding that the foreign firms followed some practices which were not in the interests of the Indian business community and of the producers, thought of entering the field of export of oilseeds and several big business houses took up the export trade in oilseeds. Messrs. Kilachand Devchand, and R. Ratilal and Company with the support of other business firms who were then already trading under the auspices of the Gujarati Vyapar Mandal and the Grain Merchants' Association, started the Seeds Traders' Association in the year 1926 and commenced forward trading in groundnuts, castorseeds, and cottonseeds on the basis of a commodity exchange.

The increasing volume of export trade gave very strong support to this new institution which it greatly needed to place itself on a solid foundation and futures trade in groundnuts, castorseed and cottonseed went on increasing from year to year.

Location of Exchanges.

In India as well as in foreign countries, the exchanges first developed at the port centres in view of the fact that foreign trade was in the earlier stages responsible for the development of

14. Statistical Abstract for British India and Native States from 1919-20 to 1929-30.

exchanges. As internal trade increased and industrial units came to be established round about the port centres and large towns of commercial importance, exchanges were opened at such centres. The reason why exchanges are more important at the exporting and the consuming centres is that all interests participating in the trade of a particular commodity can come together and negotiate their dealings here. Moreover, in industrial towns, and at exporting centres the capital as and when required is available at short notice and this helps a great deal in making transactions in bulk. Further, the demand from the mills and foreign countries cannot be estimated beforehand for a particular period as it varies according to the level of prices from time to time and also according to the supply available of that particular commodity from other competing foreign countries or of substitute commodities from the home country or those other countries.

Again the industrial units have to change their process, designs and method of production and quality etc., at times at short notice to meet the changing fashions and tastes of the consumers or to face competition from some new product placed on the market. All these reasons combine to point to the fact that the demand cannot be estimated in clear terms over a long period. This is the chief reason why commodity exchanges develop at the consuming or port centres, which have extensive facilities for rapid transport and communication.

The reason why exchanges cannot develop efficiently at the producing centres is that the exchange will have to deal with the produce of that particular area alone. The produce grown in other areas cannot be expected to arrive at a particular producing centre in view of great distances and prohibitive costs of transport. In matters of trade and business on the lines of commodity exchanges a central site has to be selected where competition in demand as well as in supply can exert its proper influence. This cannot be accomplished at the producing centres which would be concerned only with one particular type or quality of the produce. However, in such producing centres as can claim to have a monopoly as regards the growth of the particular commodity, commodity exchanges might be set up in the producing areas, as in that case the millers and the exporters have to look forward to that area alone for their requirements. Nowadays, in India after the opening of a number of ports on the coastline and the coming into being of trade centres round about these ports,

exchanges have been started at a number of places and this facilitates on some occasions purchases to be made by the mills and exports. For a commodity exchange the place must necessarily be such as is of considerable financial strength as otherwise there will be no confidence of the sellers or the buyers in the transactions on the exchanges.

Relative Importance of the Exchanges at Bombay.

In order to assess the relative importance of the exchanges at Bombay as compared with the markets in other ports of the country, we shall have to take up the commodities separately in order :

Cotton.

The East India Cotton Association at Bombay which regulates and controls the cotton trade in Bombay commands the highest importance and wields great influence so far as this particular commodity is concerned. There are cotton exchanges at Surat, Ahmedabad, Indore, and such other centres of industrial and trade significance. But in view of the fact that cotton is grown in most parts of the country Bombay is the central place where transactions in large volumes can be effected. The East India Cotton Association, therefore, is the most important body for the cotton trade.

Groundnuts.

For groundnuts the Seeds Traders' Association Exchange is important so far as the crop in the Bombay Presidency is concerned and the exchange at Madras is important for the crop of that Presidency. The Bombay Exchange has very little direct influence over the Madras Exchange. There are exchanges at some places in Kathiawar where futures trade in groundnuts is carried on. Without the existence of the Bombay Exchange these exchanges would be of little significance. The reason is that the prices at Bombay can exert influence on production in H. E. H. the Nizam's Dominions, the Kolhapur State, the southern part of the Bombay Presidency, Khandesh districts as also the Gujarat and Kathiawar districts.

Castorseed.

In case of Castorseed also the exchange at Bombay is the only exchange worth noting. Futures trade in castorseeds is being carried on at some places in Kathiawar. But the main volume of trade is being done at Bombay.

Cottonseed.

Practically the same is the case with cottonseeds, with this difference that in some parts where cotton is being ginned and pressed futures trading in cottonseeds is being carried on on a considerable scale. There is a spot market in cottonseed at Palej in Surat district. The nature of transactions, however, are based mostly on the basis of the contract terms prevailing at Bombay.

Linseed.

Regarding linseed there are two markets in India worth mentioning, one at Bombay and the other at Calcutta. Bold linseed is traded in at Bombay and small linseed at Calcutta. As compared to Calcutta, the Bombay market is more important in view of the fact that Bold linseed is preferred to small linseed and the linseed growing areas are nearer to Bombay. Moreover on account of the export trade in groundnuts and castorseeds being largely done through Bombay, linseed also assumes a greater importance in the Bombay markets. It is not wrong to state, therefore, that Bombay so far as the major oilseeds are concerned is the chief market for oilseeds grown in the country.

Wheat.

For wheat Bombay cannot be called the chief market as is the case with oilseeds because there are markets of equal importance at Karachi, in the Punjab, and at Calcutta. All these markets exert influence upon one another so far as price indications and the volume of transactions are concerned. The Bombay market has its influence on the local conditions at Bombay and looks after the requirements particularly of this city alone. However, in case of speculation "straddle transactions" with other markets take place, and a link is thus formed between the several markets operating in wheat trade.

Name of Association & Province.	Unit of transaction.	Margin money (per bag)	Principal sources of revenue (Commission)	Profit and Loss.
JARANWALA.				
The Jaranwala Lakshmi Trading Co., Ltd.	250	1 0 0	0 3 0 Per cent. share holder to pay Rs. 50 per annum per share.	Rs. 6,900
The Jaranwala Pratab Trading Co.	250	1 4 0	0 3 3 Per cent.	
ARIFWALA.				
The Nilibar Trading Co.	250	1 4 0	0 12 0 Per cent.	
SARGODHA.				
The Swadesh Trading Co.	500	1 4 0	0 4 0 Per cent.	
BAHAUDDIN.	Mds.	Rs. a. p.	Rs. a. p.	
The Bahauddin Trading Co., Ltd.	250	0 12 0	0 2 9 Per cent.	
PHULLERWAN				
The Phullerwan Trading Co., Ltd.	250	0 8 0	0 3 0 Per cent.	
JULLUNDUR.				
The Jullundur Trading Co., Ltd.	250	0 8 0	0 5 0 Per cent. rebate @ 0-1-0 upto 500 contracts in a year & 0-2-0 over 500.	
The Bhisham Trading Co., Ltd.	250	0 8 0	Do.	Net profit Rs. 2,71
MOGA.				
The Grain Trading and Banking Co., Ltd.	250	0 8 0		Rs. 3,50
LUDHIANA.				
The Grain and Cotton Merchants Co., Ltd.	250	0 10 0	0 3 0 Per cent.	
FAZILKA.				
The Mahadev Business Co., Ltd.	250	0 8 0	0 1 3 Per cent.	

d	Dividends (1934-35)	Names of commodities dealt.	Volume of trading in wheat,		Futures contracts settled by actual deliveries.	% of deliveries to total volume of trading.
	27·6	Wheat, gram, toria and oil, cotton-seed.	1933-34	50,232	1259	2·51
			1934-35	45,558	1627	3·57
			1935-36	34,720	1048	3·02
		Wheat gram, toria, cotton seed, sugar and oil.	1933-34	26,082	1222	4·68
			1934-35	36,146	1231	3·40
			1935-36	26,120		
		Wheat, gram, toria, cotton seed and cotton.	1933-34	63,106	1553	2·46
			1934-35	63,574	1565	2·45
	50	Wheat, gram, toria, bags and cotton seed.				
	%			(Tons)	(Tons)	
		Wheat, gram, toria, sugar, cotton and cottonseed.	1933-34	20,607		
			1934-35	20,759		
		— do —	1933-34	41,222	579	1·1
			1934-35	41,528	583	1·4
		Wheat, gram, cottonseed, and sugar.	1933-34	718,888	937	0·1
			1934-35	724,209	944	0·1
	12	— do —	1933-34	720,378	1138	0·15
			1934-35	328,293	490	0·15
			1935-36	229,834	935	0·41
	15	Wheat, gram and cotton-seed.	1933-34	153,934	64	0·04
			1934-35	193,136	82	0·04
			1935-36	80,601	202	0·25
		Wheat, gram, cotton and cottonseed.				
		Wheat, gram, barley, juara and cotton seed.	1935-36	40,259	92	0·23

Name of Association & Province.	Unit of transaction.	Margin money (per bag)	Principal Sources of Revenue (Commission)	Profit and Loss
The Grain Merchants' Association.	25 tons.			
GHAZIABAD				
The Krishna Beopar Mandal	600	Rs. 150 per 600 mds.	0 2 0 per contract.	
The Ghaziabad Chamber of Commerce.	200		Do.	
MEERUT.				
The Kaisargunj Vyapar Co.	250			
MUZAFFARNAGAR.				
The Grain Chamber, Ltd.	200	Rs. 50 per 200 mds.		Rs. 6,726 (Net).
SAHARANPUR.				
The Grain Chamber, Ltd.			Rs. 11,915	Rs. 7,225 (Net).
DEOBAND.				
The Beopar Mandal.	325		Rs. 1,036	Rs. 160 Profit.
CHANDAUSI.				
The Chamber of Commerce.	12½ tons.	Rs. 100 per 12½ tons.	1934-35 Rs. 719@ 0 5 0 per contract.	Rs. 1,363
MORADABAD.				
The Moradabad Trading Co. Ltd.			Rs. 4,775	Rs. 4,672 (Net).
BAREILLY.	Mds.	Rs. a. p.	Rs. a. p.	
Beopar Mandal.	...	...	...	...
HATHRAS				
Sr. Gopal Chamber, Ltd.	...	...	Rs. 4,775 @ 0 8 0 per contract.	Rs. 1,086
SIKANDRABAD.				
Sikandrabad Merchants, Ltd.	...	...	...	...

CHAPTER III

ORGANISATION AND WORKING OF EXCHANGES

WE now turn to the study of the main features of the organisation and working of commodity exchanges in general, reference to Indian conditions being only incidental and illustrative. These latter are examined in the chapters that follow.

The internal organization of these commodity exchanges is fixed by constitution, which includes rules for the transaction of business. The administration of the exchanges is vested in a Board of Directors, composed of a President, a Vice-President, Treasurer and other officers. The President, Vice-President, Treasurer and Directors are elected annually. The Secretary is a paid official of the exchange. Important functions in the internal organization of the commodity exchange are assigned to different committees specially constituted for the purpose and composed of experienced members in that particular branch. Thus, there is on almost all exchanges an Arbitration Committee, a Survey Committee, a Clearing House Committee, a Rates Committee, etc.

Membership.

The qualification for membership on a commodity exchange is simple. Those interested in the business are admitted as members on payment of certain fees. The members may be classified further into several categories on the basis of the nature of functions they discharge or transactions they enter into, e. g. brokers and merchants.

In some of the Indian exchanges a system of issuing cards or a certificate exists for membership. The card-system mostly applies to broker members and instead of calling upon the brokers to place a deposit of a certain amount the value of the card or the certificate is fixed at a very high price. The reason is that the brokers are responsible for payment on the clearing day and the card serves the purpose of deposit. The card is confiscated in case of default. Further, a restriction is placed on the number of cards to be issued so that the trade may be kept well under control and only parties or persons competent in every respect to

function as brokers become members. This practice was found necessary when the risks of trading became greater. A special feature in this system of cards or certificates is that its value is decided from time to time from the volume of business on the exchange and in some cases this value has reached the high figure of Rs. 50,000. The brokers possessing the card are allowed to dispose of or transfer their cards in accordance with rules prescribed in that behalf by the exchange. The merchant members not acting as brokers and thus not possessing cards have to place their business through brokers possessing cards and they cannot trade directly with any member or broker. The merchants also become members of the Association because they are stockists of large quantities of goods and are always the hedgers on the exchange. In order to safeguard their interest as hedgers when price fluctuations are heavy or in regard to terms of contract, such as refraction, quality of goods, tenderable qualities, they have to become members of the particular trade body, as otherwise they would suffer so far as the technical and the actual genuine trade is concerned. However, big stockists also get the broker's cards issued in some others' names for their own selves so as to save brokerage on their voluminous hedge transactions, to protect their confidential dealings in the market, etc. The merchants have to pay the usual membership fee as prescribed by the trade body.

Brokers and Brokerage.

According to J. G. Smith, "Members when acting on behalf of others in transactions on an exchange are termed brokers, and the remuneration received by them for their service in this capacity is called brokerage."[1] Brokers in India are allowed to trade on their own account in view of the fact that their solvency is assured by the amount deposited by them or by the cards issued in their names. In England and in America, the transactions on the exchange are done in the names of brokers and the identity of the parties are not revealed.

Generally, there are two types of brokers, (1) those serving the non-member public, and (2) those serving as brokers' brokers. The first type is also known as commission brokers while the latter class is known as jobbers or sub-jobbers and in America as floor-

1. Smith J. G. Organised Produce Markets, p. 28.

brokers or pit or ring brokers. The brokers accepting sales and purchase transactions of the public i. e. non-members or even the merchant class of members put into effect such transactions by charging the brokerage. They are the simple type of brokers. The jobbers are those whose primary duty is to accept the risk of the market from these simple brokers and they put into effect a very large volume of trade of a speculative nature by making purchases and sales with the other brokers. They are very little concerned with the business from the public or the non-members. They keep their resources very high and are interested in manipulations of prices, spreading the risk and keeping the market in a healthy state. They are called the "operators" of the market and usually are as a group the "bulls" or the "bears."

Under the above classification are included the merchant members who are wholesalers and stockists. Their usual nature of trading is hedging against goods already possessed by them. As, however, no strict line of demarcation exists between the merchant and broker members, the brokers also act as hedgers when they have got the stocks and are merchants as well and the merchants act like brokers when they possess the cards.

Spot Transactions.

Spot transactions are purchases and sales of commodities on the spot, and thus imply the availability of the commodity on the spot, for the essence of such transactions is ready delivery and acceptance of the goods sold. They are also known as cash transactions for the payment has to be made immediately or within a prescribed period, say a week.

Futures Transactions.

According to Hoffman a futures contract is "an agreement to buy or sell, in accordance with law and rules of the exchange, a definite quantity of a commodity at an agreed price at a future date, being entered into for the purpose of speculating on or hedging against price changes, and being usually closed out by another offsetting futures trade."[2] Thus any transaction in which delivery of

2 Hoffman, G. W. Futures Trading upon Organised Commodity Markets, p. 188.

According to Smith, a futures contract is a contract in an organised market drawn up in a form standardised by the controlling authority of

the goods is not to be given on the spot but after a certain time whether it be a fortnight, or a month or six months is called a "futures transaction."

The futures transactions are divided into "speculative" and "hedging", and speculative transactions are further sub-divided into "Waida" or "Forward", "Options", "Straddle", and "Badla" on the Indian markets.

Distinction Between "Spot" and "Futures" Transactions.

The main difference between a spot and futures contract is in its use, the former being a merchandising contract while the latter is generally a speculative or hedging contract. The futures contract is mostly used to speculate on or hedge against price changes of the commodity.

The spot business is executed at exchange tables or privately in a broker's office, while the futures business on the other hand is entirely conducted in the ring or on the floor and is done only during trading hours. The spot contract can be made for any quality because the size of a spot contract is not definitely prescribed as in the case of futures, where the unit of trading is fixed.

Another point of distinction is as regards the period of delivery. In the case of futures, delivery of the goods can only be effected during the specified period i.e. the settlement month while in the spot the delivery is immediate or within a short period.

Speculative Transactions.

Nicholas Kaldor defines organised speculation as "the purchase or sale of goods with a view to re-sell or (re-purchase) at a later date, where the motive behind such action is the expectation of a change in the relative prices relatively to the ruling prices and not a gain accruing through the actual use of handling of the commodity concerned or any kind of transformation effected in them or

that market, referring never to specific lots of produce, but prescribing the unit of amount and quality, while leaving to the contracting parties the determination of total amount, price, and time of delivery, it being understood that the choice in the latter case has reference only to a definite period of time stated in the contract, and that these periods are prescribed by custom or the market authority and not arbitrarily selected by either of the parties to the bargain." J. G. Smith, Organised Produce Markets, p. 44.

their transfer between the different markets." [3] In other words, it means an attempt to make a profit merely out of an anticipated change in price. As Dr. H. C. Emery puts it, "Speculation consists in buying and selling commodities or securities, other property, in the hope of a profit from anticipated changes of value."

A speculative transaction thus involves the assumption of risks incidental to price changes in the commodity under consideration. Price changes are due to a variety of reasons. They may be due to seasonal differences in production and consumption or to changes in relative scarcity caused by irregular and inaccurate adjustments between supply and demand from year to year, season to season or from day to day. They may also be due to changes in financial, political, transport and other conditions about which we have referred in the previous chapter.

Speculative transactions are entered into by a certain class of persons who either form a syndicate or a group or act individually. Their function is to assume risks by sales or purchases as and when offered and to spread it over the period of settlement in such a way that usually they make a profit without causing any heavy fluctuations in the level of prices. Usually such operators are divided into two types : the bull and the bear. A speculator who buys forward with the object of selling again at a profit before the date of delivery is known as a bull, a long or a bull operator, and a speculator, who sells forward in the hope that before the date of delivery he will be able to purchase at a lower rate and thus make a profit on the difference is called a bear, a short or a bear operator. However, there is nothing to prevent either of them in changing sides when necessary. Through long experience they can easily analyse the influence working in the market, and can select the time when they should buy or sell.

Speculative transactions are also entered into by others, for example, the public or the brokers with little resources who are not called operators. This class as such has no intention to assume risk but they usually follow the big operators. Their holding capacity is not so strong as that of the operators and accordingly they square up their sales or purchases when the price has risen or

3. Review of Economic Studies, Vol. VII.

4. Emery, H. C. "Speculation on Stock and Produce Exchanges of the United States", p. 11.

fallen to a certain extent. Their gaining or losing from trading depends upon chance and thus they provide a very useful medium to the operators for spreading the risk from one party to the other.

The operators who speculate with the real intention of assuming and absorbing risk require large finance to safeguard their position against the risks they have undertaken. In addition to this they utilise the sale or purchase transactions of others in squaring up their risk. Thus on the whole a large capital is drawn into the market for smooth trading from season to season of the particular commodity.

Waida or Forward Transactions.

Waida or forward transactions are speculative in character. They mean selling or purchasing at a given rate and again squaring up the transaction by purchasing or selling respectively at some future date. The person makes profits or gains according to the price at which the transaction is squared up. However, on occasions the parties prefer to give or take delivery of the goods as against their transactions and then these transactions change from being speculative to forward delivery transactions. Further on most of the exchanges no transactions, even if they are speculative, are given such a name. All speculative transactions are supposed to be entered into with the intention of giving or taking delivery of goods. In actual practice, however, it is otherwise.

"Put" and "Call" Options.

The system of trading in options is another form of speculative transaction which differs from the ordinary forward or Waida transactions in this respect that the risk is limited. In an open forward transaction if the contract is made for a purchase and the price goes down the purchaser has either to take delivery at the purchase price or to pay the difference in proportion to the falling price and vice versa. When fluctuations both ways are heavy and it is not possible to anticipate the price either way option contracts are made to limit the risk. In option contract if the price goes in the opposite direction of the contract the person making the contract has not to pay any difference. His risk is limited by the amount of premium he is called upon to pay. An option thus is a right to operate a contract according to the terms settled at the time when the option is given. The granter of an option receives a fixed

amount by way of premium from the purchaser of the option, in consideration of keeping the contract open for a specified time. If the price fluctuates in such a way as to make it profitable for the holder of an option to exercise it he would do it; if not, he loses the premium paid for the option, but has not to pay any difference between the price at which he made the option contract and the actual current market price.

The right to buy from the person granting the option a certain commodity at a fixed price is known as Call Option, while the right to sell is called Put Option. A Double Option or Put and Call Option for which double the premium is usually charged gives the right to sell or buy a certain commodity at a stated price.

The buyer of a Call Option is known as a "bull" i.e. he believes that the prices are likely to rise. If he finds that the price has not risen, he usually does not demand delivery of the produce purchased by him and he loses the consideration money paid by him. The buyer of a Put Option, on the other hand, is a "bear" i.e. the person who expects the price to fall. If he finds that the price has not gone down, he does not exercise his option. The buyer of a Put and Call Option secures the right to buy or sell as it suits him. The buyer of a Double Option is both a "bull" and a "bear". In other words, he protects himself against risk both ways. Such transactions are done when the market is very uncertain or when the market is just around the normal when it is difficult to say whether there will be a rise or fall. We shall give below the examples of Call, Put and Put and Call Options.

(a) "*Call*" *Option.*

In a Call Option, the purchaser of the option purchases at a price which is equal to the current price plus the amount of premium he has paid to the granter of the option. When such an option is given it is the duty of the granter of the option to purchase from the market an equal quantity at the current price so that he would be able to fulfil the contract which he has made with the purchaser of the option. Suppose A pays to B Rs. 5 for the right to declare himself a buyer of a khandi of groundnut at a price of say Rs. 50|- the present market price being Rs. 45|- per khandi. During the currency of the transaction the market rises say to Rs. 53. A's option contract with B to purchase at Rs. 50 begins to take effect when the price has reached the figure of Rs. 50|-, and there-

after A is entitled to sell at any higher price over Rs. 50|- which exists in the market. Thereupon B must either give delivery to A at Rs. 50 or pay him Rs. 8, the difference between the prices on the delivery date and the contract date. Since A has already paid B Rs. 5 as premium A's net gain is Rs. 3. Should the market rise say to Rs. 60 A would make a net profit of Rs. 10 after deducting premium which he had already paid to B. If the market remains stationary or falls below that figure A does not exercise his option to buy and loses his premium and B gains the profit of Rs. 5 which is paid by A as consideration money.

(b) *"Put" Option.*

A Put Option, on the other hand, is an agreement giving the buyer the right to deliver to, or put on to, the other party a certain amount of produce at a fixed price. It is a contract made when a fall in price is anticipated. Suppose as in the previous example A anticipated that the price of groundnuts will fall, and that he desires to profit by this decline in price and gives B Rs. 5 for the right to declare himself a seller, by a specified date, at a price of say Rs. 50, the present market price being Rs. 55 per khandi. The contract thus made means that B sells at Rs. 55, the current market price and purchases at Rs. 50 from A. Suppose the market falls to Rs. 45, A decides to exercise his option to sell at the agreed price of Rs. 50. B is bound to give the option to A to purchase at any price below Rs. 50 which the market reaches rather than demanding delivery at Rs. 50 or pay the difference between Rs. 50 and the ruling market rate at Rs. 45. In the event of the market remaining stationary at Rs. 50 or rising above that figure, A loses the whole of his premium. If, on the other hand, the market falls to Rs. 40, A is the gainer to the extent of Rs. 10 i.e. the difference between Rs. 50 and the ruling market rate at Rs. 40.

(c) *"Double" Option or "Put and Call" Option.*

When a person wants to exercise either of the two options, he enters into a Put and Call Option contract. These options are merely a combination of two single options and work in the same way. In this case, A declares himself either as a seller or a buyer, as may best suit him. Assuming A has paid B Rs. 10 as both the options "premium" when the current market price is Rs. 45. If the market rises to Rs. 55 A, declaring himself buyer, gains Rs. 5.

If the market rises to Rs. 65 he gains Rs. 15 on the premium paid by him by exercising his option to buy. Similarly, if the market declines to Rs. 35 A, by declaring himself buyer, gains Rs. 5. A makes a profit when the price is above Rs. 50 or falls below Rs. 40. In this way it is possible for him to recover Rs. 10 invested by him, if the price fluctuations absolutely are on one side. However, if the price fluctuates both ways, he can adjust his transactions and may recover the amount and even gain more by taking advantage of the prices. If the price during one Waida in the above instance is Rs. 55 and Rs. 35 he can recover the amount of his investment without waiting for the price to reach Rs. 60 and Rs. 30 as pointed out above. In the actual market conditions, for an ordinary person, however, it is difficult to recover his amount in this manner as the granters of option are shrewd enough not to allow the price to go beyond certain limits so far as it lies in their power.

Short and Long-dated Options.

Short-dated options are those options for which the amount of premium is quoted regularly in the market and relates to the current price. These options mature when the market price reaches a level equivalent to the current market price plus or less the premium. The premium amount for short-dated options fluctuates according to the market price as under :

- If the market is normal and there is no likelihood of heavy fluctuations the amount of premium both ways is less.

If the market has an upward tendency and there is the likelihood of prices going up within a short time the premium for Call Option increases in relation to that for Put Options and vice versa.

The distinction between short and long-dated options is that in the former, the premium relates to the current market price and fluctuates with it. In the latter, the premiums are fixed for a particular price to exist at some long date in the future and this premium also is based on the present price level. For long-dated options the premium is less as the degree of probability that the price will reach that particular level is remote. The amount of premium for the long-dated options also varies accordingly, as the price level is normal or there are heavy fluctuations.

The advantages of Option transactions, as compared to futures trading is that a person while having a chance of unlimited profit has his loss limited to the amount of premium paid. In Option

transactions the risk is limited because one has not to pay the difference in Call Option in case the rate goes down or in Put Option in case the rate goes up. As pointed out previously in open forward transactions, suppose a person makes a purchase contract at a certain price he has to take the delivery on the settlement day or pay the difference and cancel his contract if the price goes below his purchase price. Similarly, if a person has sold at a particular price and the price goes up he has to give the delivery or is liable to pay the difference. This amount of difference is very great if there are unexpected heavy fluctuations. In the case of option transactions if a person has to pay premium for a Call Option, he is not liable to pay any amount if the price goes below the market price over which he has paid the premium. Similar is the case when he has applied the Put Option and he has not to pay any difference if the price goes above the market price upon which his premium was paid. The risk accordingly is limited to the extent of the premium paid whereas the gain is unlimited as the prices may go beyond or below the amount of premium paid by him respectively in Call and Put Options. The big operators of the market accept the Put or Call Option amounts from different parties and their interest lies in not allowing the price to go beyond the rate at which the maximum number of persons had applied Call Options or below the rate at which maximum Put Option has been applied. These operators accordingly come into the market to sell or buy large quantities just a few days previous to the day fixed for clearing rates of closing Option transactions. Such transactions enable them to appropriate the amount of Put or Call Option accepted by them from others. These Option transactions are at times made extremely complex by these operators by selling or buying at different levels during the period of the settlement.

Similar transactions also take place on Indian Exchanges and are known as Teji-Mandi transactions. The nature of these is explained more fully in Chapters IV, V, VI.

Straddle Transactions.

One more form of speculative transaction remains to be explained, namely, straddle transactions on the Indian markets. In all organised markets where for commodities or securities, there has always been trading between one market and another. The terms used to denote such trading are different in respect of different

commodities. In the securities markets such trading is called "arbitraging." In grain it is called "spreading" and the transactions themselves are called "spreads." In cotton the term "straddling" is used. A straddle means an operation which aims at bridging the gap or covering the "spread" between two values, by buying the one which seems low at the moment, and selling the other which is relatively high. [5] The chief characteristic of straddle transactions is that squaring up of transactions never takes place in the same market. Another distinguishing point underlying a straddle transaction is that the purchase and sale are not made according to one set of rules, or in one particular type of commodity.

Straddle transactions are made to take advantage of the different terms of contracts prevailing in different countries or in different markets of the same country. They are also made to take advantage of exchange fluctuations so as ultimately to restore the parity of the same commodity in different markets.

Straddle transactions are utilised both by hedgers and speculators. Hedgers when they purchase a very large stock at times feel that the price in their own local market will be depressed to a great extent if they hedge the goods locally. On some other occasions, when they do not want to disclose their ready transactions they resort to straddle transactions in other markets. By their so doing they are in a position to prevent the prices going down in the local market because the bulk of their ready purchase is transferred to the other market by means of hedging. The only question is that there should not be loss of money and this can be avoided by straddle transactions.

Speculators make straddle transactions when they feel that the risk undertaken by them can be easily transferred to some other market. This enables them to adjust their own market on a fresh base because with speculators transfer of risk means additional support for further operations. Thus, the tone of the market by such operations in different markets is maintained and the position becomes sounder.

A straddle is a transaction between markets, as for example, a man who is long 1000 March in Liverpool and short 1000 March in New York is said to have a "March Straddle" between New York

5. Todd, J. A. *The Marketing of Cotton*, p. 147.

and Liverpool.[6] This is one way of entering into straddle transactions. For restoring price parity straddle transactions are also made as under :

For instance, the price in the United Kingdom is higher than the price in the Bombay market. Persons making straddle transactions will continuously purchase in Bombay and sell in London so that the parity will be restored to its normal level. Transactions in the Bombay as well as in the London markets require again to be squared up and it is done in the following manner :

When the purchases are made in the Bombay market sales are made in the same market when the prices have gone sufficiently over the purchase price and thus the transaction in Bombay is squared up. Similarly, in the London market the first sales were made at a higher price and then by continuous selling the price is brought down. While the prices are thus being brought dowr at certain opportune stages purchases are made in the London market which would be at a lower price than the price at which the sales were made. Thus in one series of transactions price parity is restored and profit is obtained in the direct transactions between Bombay and London and in the individual transactions in each different market.

For entering into straddle transactions a large number of factors, such as the exchange ratio, political and economic conditions and the position of all buying and selling countries has to be taken into consideration.

Straddle transactions serve also the purpose of restoring to a fair level the price of a commodity in a particular market. Suppose, for example, due to some factors like over-production or under-production the price in a particular market is lower or higher than the fair price-level. By making purchases or sales in one market and vice versa in the other market the prices can be brought to a fair level by means of straddle transactions. In cases of markets wherein commodities can be brought from another market or from where commodities can be taken to other markets, straddle transactions also serve the purpose of reducing the effect of over-production or under-production.

Another type of straddle transaction is between markets dealing in two types of different commodities. Such transactions are mainly done for the purpose of reducing risk and it indirectly helps to

6. Hubbard, W. H. *Cotton and the Cotton Market*, p. 380.

maintain a healthy undertone of each individual market. The system of squaring up transactions of each individual market, however, is the same in all types of straddle transactions.

Badla Transactions.

The chief object of entering into Badla transactions in case of hedgers is to secure a larger margin by way of interest on the amount invested by them in their stock. For others, the Badla transactions enable them to carry forward their risks when they feel that the conditions in the succeeding Waida will be more favourable as compared to those existing in the current Waida.

Badla transactions mean carrying forward transactions of one Waida into the following Waida. They are made as under :—

Suppose one thousand tons of any commodity are purchased in one Waida at a particular price. At the clearing rate this transaction is squared up and a fresh transaction is simultaneously put into effect for the succeeding Waida. The persons obtain the margin as profit and large investors usually resort to such transactions as they get a higher rate of interest by such operations.

Another type of Badla transaction is purchasing in one Waida and selling simultaneously in the succeeding Waida. The transactions are squared up at the clearing rate and the party obtains as profit the difference between the prices of the two Waidas. When such Badla transactions are made for different markets or for different commodities they assume the form of straddle transactions.

Hedging Transactions.

We have referred in Chapter I to "hedging" as the practice of making contra sales and purchases of equal amounts, one in the spot market, where the actual physical commodity is handled, and the other in the futures market. If prices in the two markets move exactly parallel, losses from price change in one market will be offset by profits in the other. When so made, futures trading provides a form of insurance in which the body of speculators constitutes the insurers and the body of hedgers the insured. Hedging differs from insurance, however, in that the hedger not only holds the original risk of price fluctuations, but he takes on another risk as nearly as possible of an opposite character in the expectation that loss on the one will be offset by gain on the other. There are two forms of hedging. The hedge sale is one when the trader buys

commodity in cash and at the same time sells futures of an equivalent quantity as protection against a fall in price during the time he holds the above stock. In the same manner the *hedge purchase* is used exactly the other way. It is when for instance, a miller or a manufacturer sells some goods for cash and purchases futures to protect himself against an advance in the price of the raw material.

The Purpose of Hedging.

The value of hedging lies in its ability to conserve merchandising profits in individual transactions and provide protection from losses. Hedging operations are not confined to any particular trade. They are used extensively in cotton, grain and seeds trade by different functionaries, viz., growers, dealers, importers, exporters, stockists, to protect themselves against losses which might result due to price fluctuations.

The nature of trading is such that the traders have to buy goods usually at the beginning of the season and sell them in the course of the year—at times after a considerable period. During this interval prices go up or down putting the dealers to heavy losses. By hedging their purchases, (or making forward sales) they shift the price hazard on to the shoulders of others whose main function is to bear risks. The difference between the transaction of a merchant who follows the policy of hedging and that of the one who does not is thus a case of choosing between a smaller but more certain profit and a larger but more uncertain one. The idea underlying every hedging operation is, therefore, that there be an existing market risk resulting from frequent price fluctuations. Besides hedging has another advantage. The firms that hedge receive better credit facilities and are able to operate on a smaller margin of profit. Hedging thus facilitates market finance. Banks advance money readily against goods that are hedged. The general practice with the traders in case of hedging transactions is to sell or buy futures at such a rate that it includes a normal margin of profit and as such while a fair profit is assured, they do not suffer any loss. Further, hedging operations effect a great deal of saving in the establishment costs of traders because these items of expenditure are also included in the price at which hedge sales or purchases are made. To hedge satisfactorily, there must always be available a continuous futures market with such a volume that the merchant or hedger can do his work without giving any undue shock to the

price of the commodity. Such a market is provided by the trading of operators who systematically accept the risk and pass it on to others without causing abnormal fluctuations.

Hedging and Insurance.

Hedging does not give full protection against price changes for the following reasons: [7]

In the first place, in order that hedging may afford complete insurance, it is necessary that the prices in the two markets involved move together. If they do not move together, hedging fails to furnish complete protection from risk. Similar movements in any two markets may occur if both are controlled by the same forces or if one market controls the other. But spot and futures prices which are most frequently used for hedging do not always move together. It sometimes happens that futures prices are "out of line" with the ready prices i.e. the futures prices instead of being at a premium over spot prices may be at a discount. This usually happens when a bumper crop of the commodity is expected in the succeeding season. So long as the ready prices and futures prices are moving in the same direction hedging can be effected even when the futures prices are at a discount below the ready prices. The reason is that the extent to which ready prices will fall will be similar to the extent to which the futures prices will also go down and thus the margin in both cases will be the same. What the hedger will lose in the ready market will be gained by him in the forward market. Possibility of loss arises when fluctuations in the ready and the futures markets are in opposite directions and are not taking place at the same rate. Usually, however, whenever futures are at a discount over the spot, merchants avoid keeping of large stocks and try to dispose of them soon, because they will not be able under these circumstances to retain a fair margin of profit and cover their expenses.

In the second place, dealers must often handle various grades of a commodity, while hedging must be done in the contract grade. Sometimes the prices of all grades do not move together.

In the third place, hedging does not give full protection as the amounts handled by dealers and manufacturers often do not agree with the size of contracts used on futures markets. Hedging must

7. Converse and Huegy, *Elements of Marketing*, p. 230.

be done in the units specified for future on the various exchanges. For grain this is usually 500 maunds or 25 tons and for cotton 50 bales.

Finally, hedging involves expenses for commission, telegrams, or telephone messages, and margins kept with the brokers. On the other hand, if some system for price insurance were available, it would involve the payment of premiums, which would perhaps be much higher than the expenses of hedging, and moreover such insurance would presumably not give more complete protection than hedging.

(a) *Hedging by Farmers* :

Generally, in India farmers do not hedge. Only big landlords directly hedge their crop in the futures market. The difficulty of trading at a distance and through brokers, small holdings and lack of finances and above all illiteracy—all these make it impossible for the average farmer to make hedge transactions.

(b) *Hedging by Stockists, Exporters, etc.*

Hedging is usually practised by stockists, exporters, etc., in trades for practically all commodities. The trading concerns have necessarily to purchase grain or seeds during the season. This is usually kept in the godown. When the time comes for export, or for crushing, it is taken out. As the quantity usually dealt in this way amounts to thousands of tons, a slight variation in price involves the stockists in heavy losses in the absence of hedging.

(c) *Hedging by Millers* :

Hedging is done also by crushers and large-scale manufacturers of various products. For example an expeller would desire to secure protection for his profit arising from the margin between prices of oil and seeds plus crushing cost. So long as the purchases of seeds and sales of oil are effected simultaneously and the margin between the seeds and oil is steady, hedging is not quite necessary. He may buy his seeds for storage and may sell for futures delivery; or he may first sell his oil for futures delivery on the basis of the prevailing market prices of seeds and then go into the market to buy the necessary quantity of seeds required for crushing oil. In either case he is assured of his profit arising out of the manufacturing process regardless of subsequent fluctuations

in the price of raw materials. However, when materials are purchased in bulk and sale thereof or of the products manufactured therefrom is to be made at a later date hedging has to be resorted to, to avoid losses by price fluctuations.

The Clearing House.

A prominent feature in the organisation of commodity exchanges is the clearing house in which actual clearing of trade in the adjustment of margins takes place at the close of each day's business session. The introduction of the clearing house is a great step forward in protecting contracts and minimizing complications. The clearing house is governed by rules of the exchange, the members of which are also members of the clearing house.

The general object of the commodity clearing house is similar to that of a bank clearing house. In order to protect both parties to a futures contract the exchange requires the buyer and seller to place the deposit of a margin equivalent to 10 per cent or some fixed proportion of the market price with an exchange official, approved bank, or clearing house. On some exchanges instead of taking deposits the cards or certificates issued to the members serve the purpose of deposit in cases of default. The parties instead of calling upon each other individually for margins may settle with the clearing house at a certain time each day after all their various transactions have been checked. Each contract in futures through the clearing house pays a small fee as prescribed by the Association. Every member has to make a report to the clearing house showing the number of contracts bought and the price, and the number sold and the price. If the total shows a loss, the member attaches a cheque for such loss to this report. If there is a profit he attaches a bill due to himself for the amount. In either case the report must be placed with the clearing house before a certain hour specified by the rules.

The settlement takes place daily, weekly, fortnightly, or monthly usually, while on some exchanges no settlement takes place before the close of the term of the contract. The general principle underlying a periodical settlement is one of partial payment pending final delivery and final settling up. The system of clearing at an early date, for example, weekly or fortnightly, has its advantages as well as disadvantages. The main advantage is that on a commodity exchange functioning on a large scale and with members dealing also on some other exchanges it is very difficult to have an idea of the

actual commitments of a certain party. If early clearing is done the parties are required to receive or give the amounts due to or by them immediately and cases of default are averted. If transactions are carried on for a long time without clearing, the strength of the parties concerned and their ability to pay has to be estimated from past records only. Another advantage of early clearing is that when settlement is made the members are free again to take further risks and as such the function for which the commodity exchange is working can be performed more efficiently. The disadvantage of early clearing is that the operators who have assumed the risks have to absorb them in the market in a limited time and this causes price movements which would not occur if the period is longer. Further, early clearing induces people to trade more in options, rather than in open transactions. Early clearing at times increases speculation a great deal but this, however, depends upon the market conditions.

Systems of Clearing.

There are two forms of settlement known as "direct settlement" and "rings," which are prevalent in India as well as abroad for clearing of futures transactions wherein the same parties are frequently both the sellers and the buyers. The two forms are much the same in nature. The direct settlement occurs when there are only two parties, each being respectively buyer from, and seller to, the other. For example, A on February 10th sells to B 1000 khandis of May groundnut at Rs. 40 a khandi. Both parties are speculators. Suppose the price falls, and A makes his covering purchase by buying the same amount from B at Rs. 35/-. A has now bought from B to deliver back to B in fulfilment of the original contract. It would be absurd for either party, even if he had the wheat, to make the delivery. B in this case has lost five rupees a khandi, and he pays Rs. 5,000 over to A without much ado. This is a direct settlement.

"Ringing Out."

If the trading on an exchange were conducted by two members only, the above plan would never have needed any addition or improvement. But actually, there are complicated transactions to settle involving a number of parties. The system which clears trade under these circumstances is called the "ringing out" system. It operates in the following manner : Let us suppose, in a series of transactions from A as seller, to G as final buyer, A and G are both

speculators with no intention to take or give delivery. A must buy to cover, and G must sell to liquidate. If they can arrange it, G would sell to A. The transferable order would again return to A, after it has been endorsed by his succeeding selling and purchasing parties. A "ring" has been formed. There is nothing to be delivered, for A is both deliverer and receiver. It only remains to settle or "ring out" the differences; that is, the profit and loss of each one has to be reckoned up. This method differs from the form of settlement by transferable notice.[8] In that at the time of settlement, the two ends of the chain i. e. the first sellers and the last buyers who cannot be one and the same parties as in the above system are brought into contract by the formation of a ring. The parties t[illegible] ring may not all have bought or sold originally with speculative intent or with the expectation of forming a ring. The contracts of hedgers, of millers and of operators may all figure in these settlements.

The accounts of all the parties are settled, that is, differences are paid immediately upon the formation of the ring. Consequently it is the favourite form of settlement whenever it is possible to bring the two ends together. The differences are settled, as in a series of contracts where delivery is made, by the fixing of a settlement or clearing rate and the payment is made by the contracting parties of the difference between the settlement price and the price in their particular contracts either through the clearing house or amongst themselves.

The Clearing House.

The system of clearing has not developed in India so far as it has in the U. S. A, where daily clearings of a large volume of trade are made. In India according to the system which exists statements showing the transactions made by them and the amounts to be received or paid are submitted by the brokers to the clearing house whose duty is to verify such statements and collect the amounts from the respective parties and make the payment to those to whom they are due. A particular time is fixed before which such statements along with the amounts are submitted and after a certain prescribed period the members of the clearing house obtain the final settlement. Thereafter delivery of the goods is effected.

8. *The notice is issued in transferable form, hence its nature. This is another method of settlement.*

The Importance of Clearing House.

The importance of clearing house is measured by the promptness with which it is able to square up and clear the sales and purchases of the members and to facilitate the receipts and payments arising from such transactions. In India, very few clearing houses exist like those of the East India Cotton Association or the Marwadi Chamber of Commerce or the Shares and Stock Brokers' Association, which are working efficiently. In some other exchanges the system of clearing house exists but its functions are restricted, and no well-defined rules for their functioning are maintained. The clearing house creates confidence amongst the members on account of its efficiency as the members are able to judge their position in relation to other members as regards their transactions. Sometimes, committees are formed of the members of the clearing house and they are entrusted with the work of settlement of disputes regarding clearing or failures amongst the members. A clearing house, therefore, is an integral part of a well-organised commodity exchange.

The Complete System.

We next come to the so-called "complete system" of clearing and settling which has virtually displaced the other systems of clearing. In its most highly developed form the system operates as a corporation specially created for the purpose of becoming substitute principal by taking up the opposite end of inter-broker transactions, cancelling evened trades, cancelling and settling margins on open and evened trades, and accepting and making delivery and settlements for executed contracts. To the extent that each broker's purchases and sales on a given day with the substitute principal are alike, they may be cancelled. This applies both to the quantity of the commodity and the money amounts involved.[9]

Publication and Dissemination of Market Information.

Before closing this chapter, a word may be said about an important function of organised markets which is a natural development of their working as explained above. This function is publication of market quotations.

The market information includes information regarding the

9. Annals of American Academy of Political and Social Sciences, p. 103.

daily quotations, opening, fluctuations and closing, the daily arrivals and disposals of commodities, the names of the prominent sellers and buyers like the mills or the exporting houses, the weather reports and news about conditions prevailing in foreign competing markets. In India, very few trade bodies collect all this information on their own account but it has been found that prominent members of trade bodies are keen on collecting such information and regular records are being kept by them. The trade bodies in India collect statistical information relating to the production, acreage, and weather conditions and do not collect information regarding the actual trade conditions which indicate future trend of prices. A few of these bodies publish in the daily papers the quotations on each day on their own account. In case of other markets the daily rates are collected by the newspapers from some prominent merchants and published on behalf of the particular paper concerned.

The details about the other information as described above are also collected by the Press on their own account through their market representative and given publication. This is the reason why reports appearing in the Press about the different markets are often very scanty and at times vague containing few significant details.

In India, the Government does not intervene in such market matters and no reports are published through Government agencies. Only in such abnormal times as of war Government on account of the restrictions imposed by them are obliged to publish the information for the guidance of the public. In case of a few trade bodies monthly or weekly magazines are published but generally such literature containing trade information is published in India by prominent business men, merchants, or publishing houses. Annuals are also published by such agencies giving detailed information about the trade.

The system as prevailing in foreign countries is altogether different from the one existing in India. The trade bodies and chambers of commerce in those countries engage experts in the particular line for collection and dissemination of market information and the trade body assumes the responsibility for publication of such reports. Information regarding market quotations, arrivals and sales of goods and the names of the prominent parties who are sellers and buyers are often even transmitted by cables by these bodies for information of other markets functioning in the interior of the country. Such trade bodies under these circumstances become the guide of

the merchants and also can help the Government so far as the markets are concerned. In the Western countries also Government as such does not publish market information and the publication thereof is left to the trade bodies and Chambers of Commerce.

CHAPTER IV

THE GRAIN MERCHANTS' ASSOCIATION

HAVING discussed in the three previous chapters the functions, growth, and the organization and working of commodity exchanges in general, we shall now proceed to a detailed study of commodity exchanges in Bombay. The markets we have to study are those in wheat, groundnuts, linseed, castorseed, and cottonseed. For trading in these commodities, there are three specialised bodies in Bombay, viz., the Grain Merchants' Association, the Seeds Traders' Association and the Marwadi Chamber of Commerce. We take up, first of all, the Grain Merchants' Association, the oldest and, from the point of view of volume of transactions, the most important organized market for grain and oilseeds in Bombay.[1]

The discussion will be grouped under the following headings: (1) the constitution and organization of the Association, (2) the classes and methods of business, (3) the arbitration methods, (4) the clearing system, (5) the volume of transactions, and (6) the significance of certain rules and regulations.

Aims and Objects.

Under the constitution adopted in 1933, the aims and objects of the Association are :

(a) "To promote trade of grain, seeds, spices, gum, oilcakes and other raw materials produced in India with local and foreign markets.

(b) "To safeguard its general interests, to remove difficulties experienced therein and to do all that is necessary for the welfare of the institution and its members by every means.

(c) "To frame rules and regulations pertaining to the said trade and to amend and execute the same.

1. The visit paid to the Ryan Grain Market Ltd., the Grain Depot at Sewri and the discussions with exporters and millers, and members of the Committee of the Association indicate that the Association is the oldest in Bombay and deserves greater attention on account of its comprehensive control of trade.

(d) "To arbitrate and decide disputes arising amongst members of the Association inter-se and also between members and other parties who have dealings with them.

(e) "To decide disputes relating to the said trade taking into consideration the custom and usages of trade.

(f) "To co-operate, if necessary, with other commercial institutions for the avowed objects of the institution.

(g) "To communicate with Government, Railways, Municipality, Port Trust and other public departments with a view to safeguard and protect the general interest of the trade by every possible means.

(h) "To raise funds by levying a cess for charitable purposes or objects of general public utility and to manage them.

(i) "To participate in matters regarding general interest.

(j) "To collect, classify and disseminate matters relating to trade which will promote the objects of the Association and to propagate commercial and economic knowledge amongst members by suitable means.

(k) "To arrange for imparting commercial and industrial education."

It is clear that the Association combines the function of a commodity exchange and a commercial association.

(1) *The Constitution and Organization of the Association.*

(a) *General* : The Association was founded in the year 1899. It controls and supervises the trade in grains and seeds and has under its control two markets—one known as the Naka Market and the other, the Dana Bunder Market. At the Naka Market thousands of tons of oilseeds are sold every year to European exporters, according to the terms of transactions settled in consultation with them as far back as the year 1926. Here in this market large contracts for wheat of the Karachi Bungla, Delhi, Cawnpore and Central Provinces Pissi quality are also made with the Flour Millers of Bombay, and special terms have been incorporated into the contracts which are made with them. On the other hand, at the Dana Bunder or which is better known as Ryan Grain Market, food-stuffs such as grain and pulses, and oilseeds in large quantities are sold to retail dealers as also to exporters and millers usually on Bazar Terms.

(b) *Membership* : There are two classes of members (i) Ordinary and (ii) Associate. Any trader or merchant intending to become an Associate Member of the Association has to apply with an entrance fee of Rs. 101|- and an annual subscription of Rs. 51|-. Thereafter the said merchant or trader is admitted as an Associate Member of the Association. He becomes an Ordinary Member on payment of charity cess over sale of 8,000 bags, as prescribed by the rules of the Association. The Association has at present about 325 members (including 126 Associate Members) on the roll and the income derived from this source forms the bulk of its revenue. In this Association the brokers are not members of the Association, as is the case with the Seeds Traders' Association and the Marwadi Chamber of Commerce.

(c) *Personnel* : A person or firm wishing to do business as broker is required to apply to the Grain Merchants' Association in writing on a prescribed form (with recommendation of two members of the Managing Committee of the Association). The Association after satisfying itself as to the genuineness of the person or persons, grants the certificates for doing business as broker after receiving Rs. 25|- as fees per individual partner of the firm. The brokers are required to give in writing to the Association the names of their servants who would be operating on their behalf and to pay to the Association Rs. 11|- as fees per servant so authorised. All these are payable yearly for which certificates are granted. A person wishing to operate as a Muccadum (guaranteed broker) is either required to deposit Rs. 2,000|- with the Association or to get some member of the Association to stand as surety for him for that amount. The fee for a weighman's (or Bamboowala as he is called) certificate is Rs. 11|- per year and for authorised employees of a weighman Rs. 2|- per annum.

The broker links the seller and the buyer and is concerned with his brokerage. He is not responsible for the payment to be made by the buyer to the seller nor for the delivery of the goods by the seller to the buyer. He simply puts the parties together. A Muccadum is a broker of a higher grade who assumes the responsibility for the payment as well as for the delivery of the goods. In case the parties to the transaction fail to effect delivery or make payment the Muccadum has to effect delivery or to make payment to the parties concerned. That is the reason why a deposit or

security is required from him. A weighman (Bamboowala) is a person who draws out the samples and helps in the ascertainment of quality, packing, and weighment of goods. He is also included in the responsible personnel of the trade and as such is required to have long experience. The reason why recognition is given to all these functionaries of the trade by issuing certificates and charging fees is that while making the transactions the members who are primarily responsible to each other recognise these persons of the trade as acting on behalf of certain parties.

(2) *Classes and Methods of Business.*

Under the rules of the Association transactions in all sorts of grains and pulses and oilseeds are effected. The type of transactions are: (1) ready, (2) forward, futures or settlement and (3) Teji-Mandi.

Forward transactions under the Grain Merchants' Association are the usual forward delivery transactions wherein delivery is to be given after a certain period as mentioned in the contract form or as agreed between the parties. Normally, these transactions fall under the class covered by transactions on delivery terms as the delivery is not to be effected on the spot. Forward transactions thus include all transactions where the delivery is to be made in future and 90% of the value of goods is made on the spot against delivery of goods or railway receipt and 10% is settled after refraction, quality etc. are determined according to the terms of the contract.

Settlement or Futures Transactions, on the other hand, are transactions where delivery as well as payment is to be made at the end of the Waida. The transactions made during the Waida or Settlement period are allowed to be accumulated and the final settlement is made at the clearing rate at the end of the Waida.

The transactions at this Association are done either on Bazar or on Delivery Terms, and all the rules of this Association follow from these two methods of trading.

Bazar Terms :—The chief characteristics of the Bazar Terms basis are :

(1) Weighment is done at the seller's godown,
(2) Gross weight of the goods is taken into account,
(3) Goods are sold mostly on inspection of samples.

Delivery Terms :— In the case of Delivery Terms :

(1) Weighment is done at the buyer's godown,
(2) Net weight of the goods is taken into account,
(3) Goods are sold according to fixed contract terms.

A large volume of transactions at the Grain Merchants' Association is in ready business. Hence it has to deal with retailers to a great extent. The retailers would not like to make a contract every now and then and so delivery terms do not suit them. They, therefore prefer to buy on inspection of samples and accordingly Bazar Terms are formulated. At present even the millers and exporters purchase on Bazar Terms even though delivery terms were specially made for them.

In case of better quality goods Bazar Terms are more suitable because if the goods are sold on delivery terms contracts have to be made and the seller will have to grant allowances to the purchaser according to the terms of the contract. This difficulty is met by preparing, specially by mixing etc. a quality which suits the delivery terms. On Bazar Terms, as transactions are made on samples, it is the opinion of the traders concerned that better quality is likely to obtain better prices.

Ready Transactions on Bazar Terms :—

Ready transactions are also made with the grain and oil millers who buy from day to day the quantities required by them. All these transactions are on Bazar Terms. Ready transactions when done on weight basis are usually in khandies. Sometimes they are also entered into in terms of number of bags. In Bazar Terms, as the business is done on the spot, no contract form is filled though there is a contract form laid down by the Association. Rules and regulations regarding Bazar Terms are given in Appendix 'A' at the end of this Chapter. Refraction as mentioned in the rules is based upon the Fair Average Quality of the goods as received in Bombay from year to year. There are no separate rules for refraction for retailers and the same rules apply to them, if they purchase the goods according to the rules of refraction.

Ready Transactions on Delivery Terms :—

In ready transactions on delivery terms, it is not obligatory on the part of the seller to give delivery on the spot. These transac-

tions are done on Railway Receipt or on Godown Delivery Terms.[2] Under Railway Receipt Terms the Railway Receipt is to be given to the buyer within four days of the date of transaction and in Godown Delivery Terms the delivery is to be given to the buyer within eight days of the date of transaction.

Delivery transactions are made also in such a way that the delivery is given by the end of the month, or in the course of two months. In such transactions which are done on Railway Receipt Terms the Railway Receipt is to be tendered nine days prior to the last date of the month. It is also the practice to make transactions wherein the term "whole" is specified on contracts in respect of the month in which delivery is to be given. The word "whole" means that the receipt instead of being tendered nine days previously can be tendered till the last day of the month. On occasions, with the permission of the buyer, extension of the delivery period is obtained by the seller.

Contract forms as fixed by the Association, a copy of which is given at the end of the chapter in Appendix 'B' have to be filled in for delivery transactions. Net weight[3] is taken into account, and the terms of refraction, quality etc., as formulated from time to time by the Association are applied to such transactions. Please see Appendix 'C'.

Settlement Transactions.

The settlement transactions, including Teji-Mandi, constitute the futures type of transactions on this Exchange. The settlement period is thrice a year in March, June and September. Unlike the monthly or fortnightly clearing on some of the commodity exchanges clearing of the settlement transactions is made only at the end of each settlement i.e. three times a year, and this at times enhances speculation. Settlement transactions on this Exchange are between

2. Delivery Terms may refer to "Rail Delivery" or to "Godown Delivery". In the former case, the seller sells the Railway Receipt to the buyer, and the buyer takes the delivery of the goods from the railway station. In the latter the seller sends the goods to the buyer's godown where weighment is done and refraction settled. "Godown Delivery" and "Railway Delivery" are further divided into "Ready Godown Delivery" and what may be termed as "Delivery according to the due date mentioned in the Contract."

3. Net weight is the weight which remains after deducting the weight of the bag and after allowing for refraction.

members (merchants) whereas such transactions on other commodity exchanges (Seeds Traders' Association and the Marwadi Chamber of Commerce) are between brokers. The reason is that the brokers of the Grain Merchants' Association do not hold responsible positions as is the case with the Seeds Traders' Association and the Marwadi Chamber of Commerce wherein they are allowed to be admitted as members. In the case of the Grain Merchants' Association the class of brokers is subordinate to that of members who are merchants, stockists, exporters or millers. Settlement transactions can be made both on Bazar and Delivery Terms and the rules regarding these terms are applied if and when delivery of the goods is given or taken. (Appendix 'D' to this chapter). These transactions are peculiar to this Association only and were very popular for hedging purposes before the Seeds Traders' Association was opened in 1926. Till the year 1939 the members of the Grain Merchants' Association were greatly interested in these Settlement Transactions. Due to the war conditions they prefer to make transactions at the Seeds Traders' Association where risk is cleared fortnightly or monthly.

Clearing System.

The clearing system falls under three heads : (i) clearing, (ii) settlement and (iii) delivery. For the purpose of settlement i.e. payments of differences, a clearing rate is fixed by the Association at which all transactions to be settled are reduced to a common rate. This rate is fixed five days before the settlement which takes place on the last day of the month prior to the month of delivery. Fixing of the clearing rate is a very important function and for this purpose a special committee of responsible members is appointed. This committee takes into consideration the movements of price in course of the Waida, the actual conditions prevailing at the time and prospective conditions. For settlement the members send their representatives to an appointed place and payments in cash are made and received by the members. A Supervising Committee appointed by the Association, present at the time of settlement, decides any disputes which might arise in the course of business. After the settlement is over and the transactions are brought to a common level at the clearing rate, the actual clearing of transactions by circulation of orders takes place. In this Association, however, the transactions of the settlement go on piling up for the duration of

the settlement and actual clearing and delivery takes place only once at the end.

When transactions are reduced to a common price they can be transferred from one party to the other. A purchaser may be a seller, several times in the course of the Waida and *vice versa* and consequently the transactions require to be transferred from one party to the other. For this transfer delivery orders are issued by the Association in the name of the seller by charging a certain fee, each order being for 25 tons. All sellers accordingly get the orders issued and three alternate days are fixed in every week of the month of delivery on which orders are circulated from party to party. On these days the representatives of the members collect together at the office of the Association and the orders issued are taken in hand one by one. A clerk of the Association calls out the name of the seller who gives out the name of the purchaser. The purchaser, if he is also a seller, gives the name of his purchaser and in this way from party to party the order is transferred. The names of sellers and buyers are taken down on the order itself and the final party who wants to take delivery of the goods signs the order. Thereafter the said order is not circulated. This procedure goes on throughout the month of delivery and the parties finally accepting the orders take delivery at the seller's godown under Bazar Terms and at their godowns under Delivery Terms.

Teji-Mandi Transactions.

Corresponding to option business explained in Chapter III are the Teji-Mandi transactions entered into as per the rules of this Association. All the terms of refraction and of settlement also apply to transactions in Teji-Mandi. Teji-Mandi transactions can be made for commodities for which there exists futures trading and as such they are linked up with the settlement transactions of this Association. In other respects they are similar to the Teji-Mandi transactions made on the exchanges (Seeds Traders' Association and Marwadi Chamber of Commerce). The rules regarding Teji-Mandi and the Contract Form used in Teji-Mandi Transactions at the Grain Merchants' Association are given in Appendix 'E' and 'F' of this Chapter.

Adoption of Standard Contract.

In the Bombay markets excepting for cotton (for which there exist the East India Cotton Association Standards and the corres-

ponding Karachi and the Liverpool Standards) there exist no uniform contracts for main types of food grains and oilseeds. To improve these conditions, the Central Agricultural Marketing staff, in consultation with the representatives of the Grains and Oilseeds trades, have drawn up standard contracts for White Wheat, Linseed, Groundnut (kernels for crushing) and hand-picked selected Groundnuts (kernels and nuts in shell).

The Standard Contract has been formulated primarily with a view to improve the quality of the goods and to standardise the trade practices in different markets. Inter-regional trading becomes easy if standard contracts are used at all places. The difference in price would then be only in respect of freight and miscellaneous charges.

(a) *Wheat.*—As regards Wheat, the Grain Merchants' Association has not so far ratified the Standard Contract. The Association at present does trading on the terms given in their bye-laws. The points of difference between the terms of Standard Contract for White Wheat and those adopted by the Grain Merchants' Association in their contracts are given here under various heads.

Standard Contract Terms.			Terms in Contract adopted by the Grain Merchants' Association.	
Basis.	Deductions.	Rejection.	Basis.	Deductions.
		DIRT.		
2% mutual	Over 1½% to 3% at full value. Over 3% to 5% at full value plus cleaning charges buyers at Rs. 3/- per 100 bags.	Over 5% at buyer's option.	3% mutual for Cawnpore and Delhi Wheat. 1½% mutual for Karachi Bungla.	Proportionate allowance plus cleaning charges at Rs. 3/- per 100 bags when dirt exceeds the basis by 4%.
		BARLEY.		
2% mutual	Over 2% to 6% at half value. Over 6% to 10% at full value.	Over 10%	Barley and grams :— 3% mutual for Cawnpore and Delhi qualities. 2% mutual for Karachi Bungla.	Over 8% at half value. Over 7%.

DAMAGED.

Basis.	Deduction.	Rejection.	Basis.	Deductions.
free.	Over 1% to 2% at half value. Over 2% to 3% at full value.	Over 3% at buyer's option.		Half value.

SLIGHTLY DAMAGED.

Basis.	Deduction.	Rejection.	Basis.	Deductions.
2% free.	Over 2% to 4% at one-fourth value. Over 4% to 6% at half value.	Over 6% at buyer's option.		One-fourth value.

SHRIVELLED.

Basis.	Deduction.	Rejection.	Basis.	Deductions.
1% free.	Over 1% to 4% one-fourth value. Over 4% to 6% at half value.	Over 6% at buyer's option.	1% free.	Over 1%, one-fourth to be counted as dirt.

WEEVILLED.

New crop to the end of May.	Nothing free.		The presence of any weevilled grain in new crop wheat entitles the buyer to reject.	From 1st April up to 31st July. Nothing free.	One-fourth to be counted as dirt.
June	- do -	Upto ¼% at full value.	Over ¼%	From 1st August to 31st March of the next year 1% free.	Over 1% ¼th to be counted as dirt.
July	- do -	Upto ¼% at ¼th value. Over ¼% to ½% at full value.	Over ½%		
August	½% free.	Over ½% to 1% at one-fourth value.	Over 1%		

WEEVILLED.

September	1% free.	Over 1% to 2% at one-fourth value.	Over 2%
October	1½ free.	Over 1½% to 3% at one-fourth value.	Over 3%
November	1½ %free.	Over 1½% to 4% at one-fourth value.	Over 4%
December	1½% free.	Over 1½% to 4% at one-fourth value. Over 4% to 5% at half value.	Over 5%
January	2% free.	Over 2% to 4% at one-fourth value. Over 4% to 5% at half value.	Over 5%
February to new crop.	2% free	Over 2% to 4% at one-fourth value. Over 4% to 5% at ¾ths value.	Over 6%

RED WHEAT.

20% non-mutual.	At ½ pie per cent.	Not specified.

UNIT OF QUOTATIONS

Railway maund of 82 2/7 lbs. ... ... Cwt.

MINIMUM UNIT OF TRANSACTION FOR "FUTURES" TRADING

500 maunds. Not specified

MONTHS OF DELIVERY.

May, September and January Not specified.

TENDERABLE WHEAT

The wheat tendered shall be any common white wheat of the current season (to be specified) produced in the Punjab, N.W.F.P., Sind, U. P. and Rajputana excluding the district of Fyzabad and all stations in E. I. Railway, east of Cawnpore, and all stations on B. N. W. Railway east of Barabanki. Soft Pissi wheat grown in Jhansi, Jalan, Banda and Hamirpur districts of the U. P., common soft white wheat produced in C.P. and in the states of Gwalior, Indore, Bhopal and Katho and all durum wheat shall be excluded The produce shall be sound, dry and in marketable condition and not lower than fair average quality.

Delhi, Cawnpore and Karachi Bungla booked from stations specified.

(b) *Linseed* :

In the case of Linseed also, this Association does not operate the Standard Contract. The Association has formulated rules regarding forward transactions on delivery terms in Linseed Bold Quality. We shall discuss here, under various heads, the points of difference between the terms of the Standard Contract for Linseed and those adopted by the Grain Merchants' Association.

Standard Contract Terms.	*Terms in Contract Adopted by the Grain Merchants' Association.*
REFRACTION.	
Basis :— 4% mutual. Allowance of full value upto 9%. Over 9% cleaning charges to be paid by seller at Rs. 3-8-0 per 100 bags plus allowance at full value.	*Delivery Terms* : 4% mutual. Over 4% proportionate allowance plus cleaning charge at Rs. 3|- per 100 bags over 8%. *Bazar Terms* :— 6% mutual.
CASTORSEED.	
Castorseed to be treated as dirt.	Castorseed included with other oilseeds which are treated as half dirt upto 2% and full dirt over 2%.

DAMAGED SEEDS.

Upto 6% to be reckoned as $\frac{1}{2}$ dirt. Excess over 6% to 8% to be reckoned as $\frac{3}{4}$ dirt and over 8% as full dirt.	Damaged seeds to be reckoned as $\frac{1}{2}$ dirt.

SLIGHTLY DAMAGED OR TOUCHED SEEDS.

1% free. Excess to be reckoned as one-fourth dirt.	(a) Slightly damaged (only) $\frac{1}{4}$th dirt. (b) Touched and discoloured, 1% free. Over 1% $\frac{1}{8}$th as dirt.

UNIT OF QUOTATION.

Maund of 82 2|7 lb.	Hundredweight.

TYPES

Bold :— Basis 125 grains per gramme with mutual allowances to buyer or seller respectively, for every grain more or less than 125 grains per gramme at 0.13 per cent. of the contract price with maximum allowance of 3% to the buyer and $1\frac{1}{2}$% to the seller. Buyer shall have the option to reject if over 146 grains per gramme.	*Small* :— Basis 100 grains per gramme with mutual allowance to buyer or seller for every grain more or less than 100 grains, per gramme at 0.15% of the contract price with a maximum of $4\frac{1}{2}$% of the contract price to the buyer and $2\frac{1}{4}$% to the seller.
Bold :— 10% small grains free. For excess over 10% of small grains seller to pay the difference between bold and small rates ruling on the day on which the goods are delivered. If the proportion of small exceeds 35% buyer has the option to reject.	(Not applicable to Bold from Raipur and Satna). For analysis of 'Bold' and 'Small' Byayan concoran machine is used.

MINIMUM UNIT OF TRANSACTION FOR "FUTURES".

500 Maunds.	25 Tons.

DELIVERY MONTHS FOR "FUTURES".

May and September.	March, May, July, September and November.

(c) *Groundnut* :

In the case of groundnuts (kernels for crushing), the Grain Merchants' Association has recently adopted contract terms, similar

to the Standard Contract terms, to govern all types of transactions on Bazar and Delivery Terms. The points of difference between the terms of the Standard Contract for groundnuts (kernels for crushing) and those of the Contract terms adopted by the Grain Merchants' Association are as follows :

Standard Contract Terms.	*Terms in Contract adopted by the Grain Merchants' Association.*
TYPES.	
"Bold" consisting of large long kernels grown in any part of India other than Kathiawar.	"Bold" having large long kernels and grown in any part of India. Karad groundnuts to be classed as "Bold".
CONDITION.	
Condition: The groundnut shall be in thoroughly dry condition. Goods showing signs of moisture shall be dried and the loss in weight and the expenses incurred in drying shall be borne by the seller. When the driage cannot be amicably settled the following procedure shall be adopted. A representative sample of the kernels shall be exposed to the sun for an hour in single layers in trays of material which is non-conductor of heat. The loss in weight due to drying shall be borne by the seller and when the loss in weight exceeds 1¼% an additional reconditioning charge at Rs. 3-8-0 per 100 bags shall be also payable by the seller. In case the Railway Receipt has been given 9 days before the due date of the contract, terms of driage of the month in which R|R is given will apply. In case, however, the R|R is given after 9 days prior to the due date of the contract, terms of driage of the month in which the goods of R|R arrive at the station shown on the R|R will apply.	*Driage :—New Crop October-November*—Upto 4 lb. single driage allowance, over 4 lb. to 7 lb. double driage allowance and over 7 lb. buyer's option to reject. *December-January* :— Upto 3 lbs. single driage allowance. Over 3 lb. to 6 lb., double driage allowance and over 6 lb., buyer's option to reject. *February and subsequent months*—Upto 1 lb. single driage allowance, over 1 lb. to 4 lb. double driage allowance, and over 4 lb. buyer's option to reject. *Explanation* :— How the months should be calculated for the purpose of driage.

REFRACTION.

Refraction :— . . . . . plus clearing charges at Rs. 3-8-0 per 100

Nuts in shell :— Nothing free. Upto 10% by weight of nuts in shell. The amount of shell present shall be calculated and reckoned as dirt. Over 10% by weight of nuts in shell-rejection at the buyer's option.

Refraction :— . . . . . . plus clearing charge at Rs. 3|- per 100 bags to buyer.

Nuts in shell :— Nothing free. Shells to the extent that their weight is equal to 10% weight of nuts in shell shall be reckoned as dirt. In case the weight of shells present is over 10% and upto 15% of the weight of nuts in shell, 1½ the said weight of shells shall be reckoned as dirt, and if over 15%, the buyer shall have the option to reject.

DAMAGED KERNELS.

Damaged Kernels :—2% free; over 2% to 4% the whole to be reckoned as ¼th dirt and over 4% to 10% the whole to be reckoned as ½ dirt. Over 10% rejection at buyer's option.

2% free. Over 2% to 4%, ¼th dirt, over 4% to 10%, ½ dirt and over 10%, buyer's option to reject.

NOOKS.

Nooks, Definition :— Pieces ⅛th or less than ⅛th of a kernel.

Definition :— (1|16th part of a kernel or a part smaller than it shall be termed a nook.) 5% free. Over 5% to 10%, ¼th dirt, and over 10%, buyer's option to reject.

ADMIXTURE.

Red Natal in any other type. 1% free. Excess over 5% to be reckoned as ⅛th dirt. Over 5% rejection at buyer's option.

Red Natal :— In Khandesh quality 5% pass, excess over 5% upto 10% to be reckoned as ⅛th dirt and over 10%, buyer's option to reject.

Red Natal :— In the remaining types 2% pass, excess over 2% upto 5% to be reckoned as ⅛th dirt and over 5% buyer's option to reject.

CASTORSEED

Nothing free. The presence of traces of castorseed or husk will give the buyer the option to clean at seller's expense subject to maximum cleaning charge at 2 annas per bag.

Presence of Castorbeans :— Free upto 8 beans per one full bag of groundnuts. Seller to pay a cleaning charge of anna 1 per bag if the number of castorbeans in one full bag of groundnuts exceeds 8 and is upto 35 and of annas 2 per bag if it is over 35.

REJECTION.

CONDITIONS.

(a) When nuts in shell exceed 10 per cent.

(b) When 'Red Natal' in any other type exceed 5% and when the admixture of any type (except Red Natal) with any other type exceeds 10 per cent.

(c) When nooks exceed 10 per cent.

(a) When nuts in shell exceed 15 per cent.

(b) When 'Red Natal' exceeds 10 per cent in Khandesh quality or 5 per cent in any other quality and when except Red Natal in any other type exceeds 10%.

(c) When nooks exceed 10 per cent or when total of splits, broken kernels and nooks exceed 50 per cent.

When the loss in weight exceeds 7 lb. for October and November, 6 lb. for December and January and 4 lb. for February and subsequent months.

UNIT OF QUOTATION.

Maund of 82 2|7 lb.

Hundredweight in case of delivery terms and candy of 560 lb. in case of Bazar Terms.

MONTHS OF DELIVERY FOR FUTURES.

February, May, August and November.

March, June and September.

MINIMUM UNIT OF TRANSACTION.

500 Maunds.

25 Tons.

PLACE OF DELIVERY.

No specification.

Either on Bazar or Delivery Terms.

The Grain Merchants' Association is opposed to the Standard Contract terms in wheat, especially in regard to the unit of weight and the unit of trading. For the Association the unit of weight is the hundred-weight and the khandie. According to the Grain Merchants' Association [13] the adoption of the Bengal maund as unit of weight would mean keeping two sets of weights, one for weighing wheat, linseed and groundnut and the other for grain and pulses for which no standard contracts have been formulated. Apart from the additional expenditure, the adoption of Standard Contract terms disturb the trade machinery and its operations, in view of the fact that thousands of bags have to be weighed every day and, at times, at short notice, if the steamer is sailing away and also because outstanding transactions have to be completed by delivery, and actual weight of goods within the time limit e.g. eight or fifteen days as prescribed under the rules and regulations. The weighing procedure in the Bombay market is such that weights from the boards of the scale are removed every time four bags are weighed. If the Bengal maunds are to be removed so very frequently, it is felt that merchants would be able to weigh only one-third of the number of bags they weigh at present. This would mean additional labour charges and waste of time and all these factors combined would push up the ultimate cost and eventually create such conditions favourable to diversion of trade from this centre to some other ports where conditions are comparatively more inviting. As for example, the normal turnover of a wholesale merchant is about 1,000 or 2,000 bags per day and in case he is not in a position to weigh this much in course of the day, naturally some portion of the labour and other establishment charges incurred by him would be wasted.

There are also other considerations such as rejection limits and refraction. While examining the standard contracts for wheat, linseed and groundnuts, the rejection limits fixed according to Standard Contract in case of damaged, slightly damaged, shrivelled and weevilled grains of wheat and the number of grains per gramme fixed in case of bold and small linseed, are such as are likely to operate against the interests of the agriculturists. The grains become damaged when there is unexpected rain at the harvest time, and

13. The arguments against the Standard Contract are based on the letter addressed by the Secretary of the Grain Merchants' Association to the Minister for Finance and Revenue, Bombay Government, 1939.

shrivelled when rain is delayed even after the months of December and January. These natural factors are such as are beyond the control of any human agency [14] and much more beyond that of the poor peasantry of this country. In regard to weevilled grains it may be pointed out that the high percentage of this infection which is found in this country as compared to other agricultural countries is the direct result of the inadequate storage facilities available to the cultivator and this fact has been commented upon in detail in the Report on the Marketing of Wheat in India. While maintaining their arguments against the Standard Contract, the Grain Merchants' Association further points out that in Argentina, the Government by passing the Grain Elevator Law and appointing a Commission have actively assisted the agriculturists in resolving their difficulties about storage facilities. In the light of conditions prevalent in other countries, the desirability of bringing Standard Contract terms into operation in India is no doubt open to objection when everything points to the fact that the cultivator, left to himself, is not in a position to fulfil these terms and is absolutely helpless against natural calamities. So far as the storage facilities are concerned, Government have done nothing beyond pointing out the defects in the existing " Katcha Pit " systems and recommending private agencies to construct better type of bins. Again it is pointed out by Government while recommending the Standard Contract that Australian wheat arriving in this country is found to be superior to indigenous produce. This superiority can be explained by the fact that the process of distribution of improved seeds has been in operation in that country for a very long time on an extensive scale. [15] In the case of India, distribution of seeds has been taken in hand only during the last few years and this also on a comparatively small scale, and hence the adoption of Standard Contract, maintains the Association, is premature at the present stage.

14. Cf. "The general view as regards damaged and touched wheat expressed by the representatives of the trading associations was that these defects were due to natural conditions over which the cultivator has no control."

Proceedings Informal Conference, 1937, p. 9.

15. Vide Proceedings of the Informal Conference of the Central Marketing Staff with representatives of Grain and Oilseeds Trade, 1936, p. 6.

Besides, it is argued that too stringent a contract would tend to narrow down the market and restrict free trading; that conditions in India differ from those in other countries and that it would be unwise to introduce any statutory grades such as are in vogue in Canada and the United States of America. It is also suggested that in the terminal markets goods of varying quality are received from different parts of the country with different refractions and if free trading is aimed at, it is necessary to devise a standard, which would represent a fair average of all produce.

The primary objective in introducing the Standard Contract is to standardise the trade practices all over the country and to encourage the producers to grow better quality grains which would obtain better prices. In view of the conditions existing at present so far as agricultural economy is concerned the terms incorporated in the Standard Contract would to some extent appear to be stringent and the arguments advanced by the Grain Merchants' Association do deserve careful consideration. However, at the same time, steps have to be taken aiming at progressive improvement of agricultural conditions so as to enable the country to compete successfully in foreign markets with which export trade has of late much increased. These being the circumstances the Standard Contract terms as at present formulated could only be accepted as a guide for further progress. In the initial stages it may be admitted that some difficulties would arise in adjustments but after two or three seasons suitable conditions would be created when adoption of Standard contract terms would prove to be an incentive rather than an impediment.

(3) *The Arbitration Methods.*

Disputes are generally settled by arbitration, and very few cases ever reach the law courts. Under the rules of the Association all disputes between members concerning trade in grain and oilseeds must first be referred to arbitration and no one can have recourse to law before he has obtained some award by arbitration. The Arbitration Committee of this Association appointed by the President consists of five members of the Managing Committee besides the President, the vice-President and the Honorary Secretary who are ex-officio members. The disputes are settled according to the rules of the Association, and according to customs and conventions having the force of rules prevailing in the market. Appeals against the awards

of the Arbitration Committee are preferred to the Managing Committee. The points of dispute are to be stated on a prescribed form. The Arbitration Committee meets once a week and disposes of the disputes placed before it.

Survey Department.

This Association maintains a Survey Department for the analysis of all kinds of grains and seeds handled at the port at a recurring cost of Rs. 6,000|- to Rs. 7,000|- a year. It is in charge of a Survey Superintendent, with suitable assistants in examination work. The branch is well-equipped with necessary apparatus and laboratory. Another Survey Department has been opened at Marma Goa for the same purpose.

Surveyors :—Eleven members of the Association are elected annually as surveyors by the members. They are experienced merchants and possess first-hand knowledge about the goods. When there is a dispute regarding refraction, quality, weight or packing, the matter is referred to them and each party appoints one surveyor out of the above eleven. The survey fees in case of members are Rs. 10|- from each party for every lot or lots, of which surveyors are paid Rs. 10|- the balance of Rs. 10|- being credited to the Association. In the event of non-agreement between surveyors, an umpire is appointed. Then the surveyors' fee is reduced to Rs. 2-8 and the umpire is paid Rs. 7-8, the balance being credited to the Association. The umpire so selected gives his award which is binding on the parties concerned.

System of Survey : For analysis of refraction and quality sample tins are filled up in the presence of the surveyors and the Survey Superintendent. For drawing out the sample ten bags are selected out of the lot and they are arranged horizontally and vertically one after the other. Samples are drawn by hand three times from each bag by Bamboowalas and the sample tins filled. The tins are then opened in the presence of the surveyors and analysed by separating damaged, slightly damaged, broken, weevilled, nooks and shrivelled seeds of grains and dirt. Then the actual percentage of refraction in the quality of the goods is ascertained and the report given by the surveyors. Survey takes place after the contracts are made both under Bazar and Delivery Terms.

Volumes of Trading : In the case of the exchanges which derive their main revenue from a registration fee per contract or a com-

mission based on the value of the commodity, as is the practice with most of the upcountry Associations, each transaction is recorded. On the other hand, in the Associations at Bombay like the Grain Merchants' Association which charge a cess on actual sales of goods only, those contracts which do not result in actual delivery are not recorded. Hence it is not possible to estimate the total volume of transactions at this Association.

Significance of Certain Rules and Regulations :

It now remains to offer a few comments on some of the rules and regulations of the Association. The Grain Merchants' Association is a trade association and performs the functions of an exchange in case of settlement transactions only. In its Naka Market it brings the buyers and sellers together and serves the purpose of a ring or a trading floor. Like other commodity exchanges it has its contract terms, clearing and settlement system and the methods of delivery. However, as the transactions are confined to members only, no publicity is given to the rates as is the case on most exchanges in foreign countries.

This Association performs the functions of a Trade Association by directing and controlling the trade, formulating contract terms, rules and regulations and by representing the grievances of the merchants in proper quarters and getting them redressed. Unlike the other two trade bodies in Bombay dealing in grains and oilseeds this Association is not registered under the Indian Companies Act and the Committee or the General Body of the Association is in a position to make changes in the constitution of the rules at any time deemed fit by them. The reason advanced is that as the Association is more concerned with ready trade worth crores of rupees, occasions may arise at any time and unexpectedly due to seasonal factors or some other reasons when it is immediately essential in the interest of the trade to amend or alter rules. This plea, however, is hardly convincing, for an appropriate provision for such contingencies can certainly be made in the constitution. Besides as the Association commands a unique position as regards ready and forward trade it is essential that it should get registered like the other two Associations engaged in grain and oilseeds trade. Unless it is registered the various changes which are long overdue in its bye-laws cannot be made.

Method of Sampling and Analysis : Another peculiarity about

this Association is the sampling method by hand. By this method a shrewd sampler gets more advantages than are obtained by sampling by spoon. In addition to lack of uniformity in drawing samples, the methods of analysis vary considerably both as regards procedure and the types of sieves used amongst the trade bodies at Bombay.

Survey :

As regards the method of survey, we can say that the merits are that the surveyors are not only mere experts in the grain and oilseeds trade, but are men who have actually worked in the market and can ascertain the quality of grain and oilseeds.

Settlement Transactions :

In the method of settlement transactions the only defect is that the risk is carried for a longer time whereas in the monthly or fortnightly clearing system the risk is limited to the particular period only. However, the advantage of continuing settlement transactions over long period is that the members being stockists can obtain further quantities of goods from the mofussil whenever it suits them and make hedge transactions or sales or purchase transactions as the case may be against their previous transactions.

Market Information : Statistics relating to the day to day arrival of important types of commodities into Bombay are maintained by the Association. Government publications regarding crop reports, acreage and production and exports and imports are also available in the Association. During the monsoon period weather forecasts from day to day are telegraphically received by the Association so as to acquaint the members with the weather conditions throughout the country immediately. Information regarding the position of the trade in foreign markets can be obtained in the Association from foreign publications such as the Incorporated Oilseeds Reporter, the Liverpool Corn Trade Publications. When information regarding the sale of particular commodities at the end of the day is required to judge the trade position ahead, the same is collected by the Association from the stock lying at Bombay and the sales and purchases of their members. To have better and systematic market information the experienced members of the Association should form a committee and issue a weekly report which should be published by the Association just as the East India Cotton Association does.

Regarding dissemination of information outside Bombay so far few attempts have been made and that is the reason why the Association is not in direct link with other markets in India.

It is to the credit of this Association that it has been controlling the extensive trade in grain and oilseeds on the west coast of this country for the last so many years. The members of this Association are long established firms of repute and many of them have got their branches in the producing centres. As the members include merchants, commission agents, millers and exporters the whole trade is very efficiently regulated and changes suitable to all these different classes of members are made as need arises. It has been found, however, that many of the customs and conventions are still not reduced to writing in the form of rules. This ought to be done so as to systematise the actual working of the trade.

The members of this Association being connected with all kinds of grains, pulses and oilseeds, obtain stocks from all parts of the country and even from outside. Further, their connections with different Indian ports enable them to export the goods also when the conditions are suitable. The Grain Merchants' Association accordingly controls in fact a very important trade and if suitable steps are taken to study the influences affecting the different kinds of commodities dealt by it, it is probable that the trade at Bombay will assume greater importance. At present, diversion of trade takes place every now and then and the reason is that the members of this Association instead of trying to stabilise trade at Bombay open branches in the place to which the trade is diverted and carry on the business there. In this connection, it may be pointed out that the Government, the Railways, the Municipality and the Port Trust should all together co-operate with the merchants, as otherwise, the merchants by themselves are not in a position to stop diversion of trade. This has very adversely affected the trade at Bombay since the last decade. But as the requirements at Bombay are also considerable, the effects have not been felt so very seriously. Analysing the trade position, however, it seems that if such conditions continue the trade at Bombay may not retain the importance it has to-day. Further it is found that the Association through its members or directly does very little to encourage the mofussil consignors to send their goods to Bombay and for this purpose it is necessary that the Association should form direct contacts with the

producing centres. This Association has on its rolls very experienced and expert business men but it is noticed that they do not make any collective effort, as they should, for scientific organisation of the trade at Bombay.

APPENDIX TO CHAPTER IV

A. *Rules Regarding Ready Transactions on Bazar Terms.*

(a) Those buyers who have their godowns or mills in Bombay as well as those who have to despatch goods by rail, must complete taking delivery of goods within eight days from the date of purchase.

(b) Those of the buyers who have no godowns in Bombay and who buy goods for shipment by a steamer must complete taking delivery of goods within fifteen days from the date of purchase.

(c) If the goods are not taken delivery of within the time as above mentioned, the buyers shall have to pay 3 pies per bag per day for godown rent and interest at 12 annas per cent per bag. The sellers must recover from the buyers the godown rent and the interest as stated above. Those who fail to do so will have to pay Rs. 5 to the Association.

(d) If the goods are not taken delivery of within the prescribed time, the sellers must send in an intimation to the Association to that effect, failing which the seller shall have to pay Rs. 5|- to the Association. The Committee will dispose of such intimation as quickly as possible.

(e) The seller should not send to the godown of the buyer the goods sold ready on Bazar Terms without weighment.

(f) No dispute will be valid regarding the weight, quality or refraction of the goods after weighment of the goods is completed.

Payment of the Goods : In Bazar Terms or Ready Transactions payment is made on the next day. In some cases of ready transactions cash payment is demanded on the spot i.e. immediately after weighment of the goods.

Weighment : For full settlement of contract in bags on Bazar or Delivery Terms excluding contracts on Ready Receipt terms, packing per bag in respect of following commodities with allowance of 7 lb. more or less shall be as under :

Linseed	1¾ cwts.
Rapeseed	1½ cwts.—14 lb.
Wheat	2 cwts.
Groundnut Bold and Karad	1½ cwts.
Groundnut Quality Madras, Khandesh etc	1½ cwts.— 7 lb.
Castorseed Small	1½ cwts.
Castorseed Bold	1½ cwts.
Cottonseed	1½ cwts.

In case of contracts in bags against which full quantity is not tendered, amount for shortage shall be calculated on the basis of average weight of bags already delivered.

Refraction :

(a) Refraction shall be calculated on the gross weight of the goods, i.e. percentage weight of the sample will be made applicable to the gross weight of the goods."

(b) That a sieve is not used for drawing out refraction in transactions on Bazar Terms.

(c) That refraction should be determined on the day of weighment. Under special circumstances refraction can be determined on the next day.

Basis of Refraction : Linseed, Rapeseed, Tilseed, Mustard, Khursâmi (Nigerseed) refraction 6%, mutual, Karadi 5%, Khaskahs (Poppyseeds) 8%, groundnuts 4%, Cottonseed 6% mutual.

For determining refraction one whole bag of Nigar, and Mahuraseed is cleaned. Otherwise in other commodities simply a sample tin filled is analysed afterwards.

As the millers purchase requirements from day to day they desire to settle refraction on the same day.

APPENDIX TO CHAPTER IV

B. FORM OF CONTRACT FOR SEEDS, WHEAT AND GRAIN ON DELIVERY TERMS.

Bombay Date ....19 .

Broker

Messrs.

Bombay

Sirs,

We have this $\dfrac{\text{bought from}}{\text{sold to}}$ you the following goods :—

Description of goods .... $\dfrac{\text{tons}}{\text{bags}}$ 1 per cent. less or more at Rs........... and one per cent. for charity. Fair average quality of the season net weight, to be given and taken delivery of Bombay Railway Station or in the buyer's godowns.

Bagging :—New Calcutta No. 2 Twill of Heavy "C" quality, i.e., bags weighing not less than 21½ lb. In Godown Delivery bagging to be as in Rail Delivery terms.

Delivery .... Seller's option. Buyer is not bound to take delivery of less than 100 bags at a time.

The buyer has the option to refuse to accept Railway Receipts if not given 9 days previous to the due date of the contract.

Each 50 tons shall be taken as separate contract if it be for more than 50 tons.

Refraction .... per cent. reciprocal.

Payment :— Moneys and final account shall be paid in accordance with the general rules and conditions.

Brokerage :—Sellers to pay ¼ per cent. but in wheat ½ per cent. The goods of this contract to be completed to Messrs. ....

The parties admit that this contract is subject to the General Conditions and Rules arranged between the Grain Merchants' Association and the buyers and which are fully known to them and shall be taken as forming part of and included in the contract.

Seller's Signature

Buyer's Signature

Broker's Signature

APPENDIX TO CHAPTER IV

C. GENERAL TERMS AND CONDITIONS CONCERNING DELIVERY TERMS.

I. *Advance* 90%—Buyers shall pay 90% in advance in case of all seeds and grains (except cottonseeds for which an advance of 75% shall be paid) against railway receipts duly endorsed in buyer's favour or the Delivery Receipt from the buyers' godowns.

II. Weight, etc.— If sellers have received an advance as per clause No. I, weight shall be fixed upon the average weight of the sample bags consisting of 10% of the number of bags of each tender which shall be weighed in the presence of sellers.

II. (a). If sellers have not received an advance of 90%, buyers shall be obliged to keep the whole tender intact and sellers shall have the option to have the whole lot weighed in their presence.

II (b). In the case of godown delivery, sellers shall endorse the godown Delivery Orders whether they desire the whole lot to be kept separate or 10% sample bags only. If a seller desires to weigh the whole lot, and if he has not taken 90% in advance in the case of all seeds and grains except cottonseed in which case 75% is advance he will pay the expenses of weighment and stacking of the lot, and at the time of weighing such a lot two empty bags of the lot shall be selected by the seller and two by the buyer and they will be placed on each scale and the buyer shall not ask for any allowance for fare. For lots of which the usual advance has not been received weighment of the 10% sample bags must take place within twenty-four hours of the arrival of the goods. Should the weighment of the whole lot be demanded, the

weight should be ascertained, and settled within three days after delivery.

II (c) The sample for refraction and quality shall be drawn out of 10 bags only. If the advance has been received by sellers, these 10 bags shall be taken out of the sample bags consisting of 10% of the number of bags of each tender. If the advance of 90% has not been received by the sellers for the goods tendered on Railway Delivery terms and|or Godown Delivery terms, and provided an endorsement has been made by the sellers as per clause II(b), the ten sample bags must be taken out of the whole tender.

II (d). If buyers desire to have the whole tender weighed, which buyers are also entitled to demand, expenses connected with the weighment and stacking will have to be borne by them.

III. *Marks on Bags* :— In the case of Godown Delivery, the sellers shall mark all their bags with their private marks.

IV. *Refraction* :— The basis of refraction agreed upon shall be :—

Linseed Rapeseed Sesemeseed Castorseed Groundnut Mowraseed Poppyseed Cottonseed Kardiseed Nigerseed	4 per cent reciprocal.

V. *Sample for Refraction* :—Sample for refraction in cases of seed contracts, except cottonseed and mowraseed, shall be made up out of 10 sample bags by arranging them one vertically and one horizontally and inserting the hand thrice. In cottonseed, sample for refraction is to be made up from any six sample bags out of 10%. In mowra seed, as stipulated in the contract.

VI. If the sample for refraction is to be drawn by surveyors, buyer's surveyor shall draw the sample by inserting the hand five times and the seller's surveyor shall draw the sample by inserting the hand once.

VII. *Default in Delivery* :— In the case of contracts for "Ready Railway Receipts" such railway receipts shall be tendered by sellers within four days of the date of sale (unless time for the delivery of such R|R is mentioned in the contract) and in case of the failure of the sellers to do so the buyers shall have the right to buy against the defaulting party or cancel the contract.

VII (a). In the case of a contract for "Ready Godown Delivery" sellers shall give delivery of the goods to the buyers, buyers shall have

the right to proceed on the first day after the due date of the contract, as explained in clause VII above.

VIII. *Analysis* :— In the case of analysis for small grains by means of a sieve, the handle of the sieve shall be turned for three minutes only.

IX. If the percentage of refraction in any goods contracted for exceeds the basis of 4%, cleaning charges at the rate of Rs. 3-8-0 per 100 bags shall be paid by the sellers.

X. *Cartage.*—In the case of "Godown Delivery" buyers shall pay cartage at the rate of 12 annas per ton if the goods have been delivered at any godown within the "B" ward limits of the Bombay Municipality, and Re. 1-4-0 per ton, if the goods have been delivered at any godown outside the "B" ward limits of the Bombay Municipality up to the Grain Depot.

XI. *Rejection and Re-offers* :—If a tender is rejected sellers shall have the option to make a fresh tender during the time of the contract either by tendering fresh R|R, provided such R|R is tendered 9 days before the due date, or by giving godown delivery within the contract time. If the award is given after the due date of contract, sellers shall have the option to make a fresh tender in "Godown Delivery" within 5 days from the date of the buyers' written intimation of rejection.

XI (a). If a tender is rejected by the award of survey after due date of the contract and sellers fail to make a fresh tender as per clause XI, buyers can use their own discretion.

XI (b). In case a tender is rejected, whether before or after the due date, buyers shall not be entitled to recover handling charges (loading, unloading and stacking) nor godown rent, nor insurance charges.

XI (c). *Return of Advance* :— In case a tender is rejected, sellers shall refund to buyers the advance received on such a tender within 5 days from the receipt of the buyers' written intimation of rejection and goods shall be removed from the buyers' godown within 5 days, after which buyers are entitled to a charge of annas 4 per bag per month by way of rent.

XII. *Delivery to Third Party* :— If in any contract there is a condition to deliver the goods to a specific party and the buyers should desire to pass on a R|R tendered by the sellers to a third party, they shall first obtain the sellers' consent. If such consent is not given by the sellers and the buyers all the same pass on the respective railway receipts to a third party, they are doing so at their own risk, sellers having the option to claim from their buyers railway weight, refraction, and quality as passed without allowance.

XIII. *Settlement Transactions* :—In the case of Settlement Transactions or

Contracts, differences shall be paid within 8 days after the due date.

XIV. *Charity Fund* :— Buyers shall pay the balance due to sellers only on the latter producing the receipt or receipts for contribution to the Delivery Charitable Fund.

XV. No special terms shall be arranged between buyers and sellers in contravention of the terms of the contract.

XVI. The buyers shall have the option to reject a tender on which a quality allowance of 4% or over has been awarded.

APPENDIX TO CHAPTER IV.

D. *Rules regarding Settlement Transactions on Bazar Terms in case of Groundnuts and on Delivery Terms in case of Linseed.*

(1) There are three settlement transaction periods ending with the months of March, June and September. Any addition to or alterations in these periods are made by the Committee of the Association.

(2) *Seller and Buyer* : The seller in a settlement transaction should be a member of the Association. That he should not be a Muccadum or a broker or a commission agent of any exporting office (office means exporter's firm). The buyer in a settlement transaction should be a member of the Association or an office recognised by the Association.

(3) *Unit of Transaction* : The minimum unit of each transaction is one hundred khandies (25 tons), and the transaction should be made for such quantity as is divided by hundred.

(4) *Clearing* : The Rate Committee fixes the rate of clearing on the 25th of the month previous to the settlement month and the seller and the buyer pay and receive the difference in rates of transactions at the clearing rate fixed by the Rate Committee.

(5) *Valan* : The payment of difference in rates after transactions have been reduced to a common denominator at the clearing rate is called *Valan*. Valan is effected on the last day of the month previous to the settlement month, and those who give the payment calculate the rate of interest at the rate of 8 annas per cent. per annum, and deduct it from the payment made by them. If there is any dispute in making the payment of difference the same has to be reported by the parties concerned to the Association on the next day of the Valan.

(6) *Delivery Orders* : Orders are issued by the Association at the Clearing Rate on Monday, Wednesday, and Friday of every week till 12 noon and a fee of 3 annas will be charged. Due date of delivery will be mentioned in the order after keeping five working days in between the date of issue of the order and the date of delivery.

Orders for transactions made after the clearing rate is fixed are issued at the clearing rate and the payment of differences in rates for the last orders is made on the third day following the last day of the settlement

month. The Committee fixes the time when last delivery orders are to be issued. The order will specify the place where it is to be presented and such place should be within the "B" ward of the Bombay Municipality.

(7) *Circulation of Orders*: Orders are circulated from party to party at the office of the Association every week from 2-30 to 3-30 p.m. on Monday, Wednesday and Friday. Each order shall be circulated on all the days of circulation prior to the date of expiry in case the person requiring or accepting the order does not want to take delivery of the goods. If it is not circulated in this way the party accepting the order shall have to take delivery of the goods mentioned in the order.

The original party in whose name the order is issued will have the right to tend the due date of order.

The party in whose name the order is finally circulated on any day of circulation of orders shall have to get his name entered in the books of the Association.

(8) *Presentation of Orders*: Orders will be presented at the latest till 6 o'clock on the due date of delivery. On the intervening days also they may be presented at 6 o'clock in the evening.

(9) *Weighment*: Weighment of the goods of the order will be done within three working days of the presentment of the order. In case, however, the buyer has got orders on the day of more than (1000) one thousand khandies he will apply to the Association for extension of date of delivery on the next day of the date on which the order was presented.

(10) *Payment*: Ninety per cent. value of the goods is fixed by the buyer on the next day of the weighment. If the seller, however, wants the full amount at the time of weighment of goods he will have the right to do so and the buyer in such cases shall pay to the Association the said amount. After weighment of goods ninety per cent of the amount is paid to the seller from the Association on the next day of weighment and balance will be paid to him within five days of settlement regarding refraction, quality, etc.

(11) There are also rules regarding the seller or the buyer defaulting to give or take delivery of the goods and the penalty they have to pay in such cases.

(b) *Contract terms for forward transactions on delivery terms for Linseed Bold.*

Refraction : 4%

Foreign matter : to be treated as dirt. (dirt, dead seeds, and non-oleganious impurities).

Other oilseeds : all other oilseeds (including castorseed upto 2% half dirt, and other 2% full dirt).

Damaged seeds : treated as ½ dirt.

Slightly damaged : treated as ¼ dirt.

Touched and discoloured: 1% free, over 1% ½ dirt.
Unit of quotation: hundredweight.
Presence of small grains: 10% free, over 10% and upto 35% seller shall pay the buyer such difference as exists between the rates for Bold and Small Linseed on the day of delivery, over 35% buyer has option to reject.

Minimum unit of transaction: 25 tons.

Delivery months for "futures" transactions: March, May, July, September and November.

The other rules and regulations for this type of transactions in Linseed are similar to those in force for settlement transactions on Bazar Terms in Groundnuts Bold.

APPENDIX TO CHAPTER IV

E. *Rules regarding Teji-Mandi Transactions.*

(1) Joint Teji-Mandi or Teji or Mandi transactions done with intention to take or give delivery of the goods will be deemed to be valid according to the rules and regulations of this Association in respect of all kinds of settlement business carried on under the auspices of the Association and accordingly joint Teji-Mandi or only Teji or Mandi transactions will be allowed to be done for settlement business of any particular commodity concerned.

(2) That it depends upon the mutual will of the parties transacting to accept or to give money immediately or at a future date. But if it is not specifically mentioned in the contract then the condition that the money should be paid on the day on which contract for Teji-Mandi is signed would be considered to have been understood.

(3) That the bill under this kind of contract should be mutually signed and exchanged.

(4) Teji-Mandi transactions will have to be finally cleared on the day on which the Teji-Mandi rate is fixed.

(5) Brokerage will be taken half to half from both the parties according to the rules enforced on the rate at which Joint Teji-Mandi is applied. In case of single Teji-Mandi ¼th of Dalali will be taken from either of the parties.

In case of other contracts they are made before contract forms are signed and they cannot be cancelled whereas in case of Teji-Mandi so long as they are not signed they can be cancelled. As a rule they are not cancelled. They stick to it.

(6) If the amount of deposit for Teji-Mandi transaction is received in advance the receiver of the deposit will pay the interest at 8 annas per cent per mensem for all the months upto the month in which Teji-Mandi rules are fixed.

APPENDIX TO CHAPTER IV

F. TEJI-MANDI CONTRACT FORM.

(The Grain Merchant Association)

Bombay, Dated 19 .

No.

Through Broker——

Receiver of the Deposit Messrs. ....
Depositer

We have this day agreed to receive|pay from|to you Rs............ for...............Khandies|Cwts. at the Teji-Mandi rate of Re........ per Khandi|Cwt. on Rs...........(Market rate) per Khandi|Cwt. as per the rules and regulations of the settlement contract for Groundnuts Bold for...........(Month) Settlement of Samvat Year.................

This contract of Teji-Mandi has been entered into according to the rules and regulations of the Grain Merchants' Association, and the purchase or the sale transaction which will follow from this contract will be deemed to have been done according to the rules and regulations of the Grain Merchants' Association and subject to the said contract.

Signed. Receiver of the deposit.
Depositer

CHAPTER V

THE SEEDS TRADERS' ASSOCIATION

IT is proposed in this chapter to study the constitution and working of the Seeds Traders' Association along the same lines as those adopted in the last chapter in connection with the Grain Merchants' Association.[1] Prior to the starting of this Association the transactions in oilseeds were carried on under the rules of the Grain Merchants' Association, and the Gujarati Vyapar Mandal which was a body of merchants carrying on forward trade in oilseeds. After the Great War (1914-18) the export trade in oilseeds assumed greater importance and the high prices obtained gave an impetus to further production. The volume of trade increased a great deal[2] and it was felt necessary to start an exchange on modern lines which would combine also the functions of a trade association. Accordingly the Seeds Traders' Association was started in the year 1926 and was registered as limited liability company in 1938, under the Indian Companies Act, 1913.

Aims and Objects :

The main aims and objects of the Association as stated in the constitution are :

"To promote and protect the interests of persons engaged and interested in the trade or business of raw produce of India such as seeds, oils, oilcakes, grains, cereals, and wheat and other commodities, to establish just and equitable traditions and principles and to maintain uniformity of control in the trade in the said commodities; to provide forms of contracts and to frame rules for the regulation and control of the transactions in the aforesaid commodities; to fix and adopt standards for classification of the said commodities, to acquire, preserve and disseminate useful information connected with the said trade or business throughout all markets; to establish, regulate and maintain a Clearing House for the purpose of dealing with the transactions in the said commodities; to remove all causes

1. See Chapter IV, p. 61.
2. See Chapter II, p. 34.

of friction and to adjust controversies between persons engaged in the said trade."[3]

Membership :

Membership of this Association falls under two classes viz., (1) Merchant Class, and (2) Broker Class. According to the constitution of this Association, the merchant class cannot trade in the ring and all business is done through brokers. However, the merchant class being stockists and as such interested in genuine trade has its position in the market safeguarded as the President and the Vice-President are elected from this class. The entrance fee for the merchant class is Rs. 51/- and for the broker class Rs. 500/-. The annual subscription is Rs. 21/- for both the classes. The Association also collects a cess of 6 pies per 100 khandies i.e. 25 tons, traded in the market. A non-member client has to deposit a margin of about Rs. 500|- per 100 khandies and the brokerage sanctioned by the Association is at the rate of 4 per cent of the value. There are at present 151 broker members and 143 members from the merchant class. A party who has been admitted as a merchant class member cannot also be admitted as a member of the broker class. If the merchant also wants to function as a broker he takes the certificate of the Association by paying Rs. 500 as entrance fees not in his name but in some other's name. Merchants who thus get themselves admitted as broker members are usually very wealthy and influential parties having a large stake in the trade. The reason why they get issued broker cards for themselves is firstly, they can save the brokerage on the voluminous transactions, hedge and speculative, put forth by them; and, secondly, the secrets of their own trade regarding sales and purchases cannot be then known in the market; and, lastly, they can earn brokerage on the transactions of the influential parties with whom they are associated. The merchant class get themselves admitted as members of the Association because they are stockists, hedgers and also to some extent exporters and so their voice counts a great deal and they are able to safeguard their trade through membership of this Association.

3. The objects of the Association as stated in the Memorandum and Articles of Association are given in full in Appendix 'A' at the end of this chapter. It will be seen from these that (especially clauses b, f, g, k, l, n, q, s, t, u, v, w, x, y, z) that the Association also has certain functions similar to Chambers of Commerce and Trade Associations.

Management :

The Association is managed by a Managing Board of twenty-three directors. Ten of the directors are elected from among the merchant class and eleven from the broker class. The President and the Vice-President as stated earlier are elected from among the merchant class of members. As in the case of other associations the work of this Association is divided among different committees, one committee being appointed for each type of functions. There are thus about five committees in all, which between themselves look after all activities of the Association.

Trading at the Exchange :

There is no ready business at this Association. Only futures trading is carried on under the auspices of this Association. The difference between the settlement transactions and the transactions of the Seeds Traders' Association is that the latter are made at the ring only and the rate fluctuates from time to time. Further in the case of the latter transactions there is fortnightly or monthly clearing whereas in the Grain Merchants' Association clearing takes place at the end of the Waida as pointed out in the earlier chapter. The settlement transaction of the Grain Merchants' Association are between members i.e. merchants and stockists whereas in the Seeds Traders' Association and other exchanges they are between brokers. Further such futures transactions are also open to the public which is not the case with the Grain Merchants' Association.

Transactions are made between brokers and brokers. For the purpose of actual trading the representatives of the brokers meet in the trading ring and enter into transactions. The representatives of the selling and buying brokers call aloud their sales and purchases which are noted down by them and in the evening the notes are compared mutually by the brokers and thereafter contract forms are filled in by them for the respective parties and sent to them for signature.

Under this Association only futures trade in groundnuts, castorseed and cottonseed is at present carried on. Trading in other food grains and oilseeds is also permitted by the rules but as the Grain Merchants' Association and the Marwadi Chamber of Commerce are dealing in such trades they have not been started by this Association. The chief trade, however, is groundnuts and thereafter in order of importance comes the trade in castorseeds and cottonseeds. The

importance of the trade in each of these corresponds to their relative importance according to total production wherein groundnuts lead the other oilseeds. The following table gives the production figures of the different kinds of oilseeds grown in India, in which groundnut leads the other oilseeds.

TABLE :[4] *Production of oil seeds in India.* (Tons)

Years.	Oilseeds.	Goundnuts.	Rape & Mustard.	Linseed.	Sesamum.	Castor-seed.
1935-36	3,933,000	2,114,000	957,000	388,000	413,000	121,000
1936-37	4,665,000	2,714,000	964,000	420,000	439,000	128,000
1937-38	5,552,000	3,501,000	1,021,000	461,000	465,000	104,000
1938-39	5,091,000	3 219,000	923,000	442,000	396,000	111,000
1939-40	5,247,000	3,148,000	1,120,000	466,000	416,000	97,000

The ring opens at 12 noon and closes at 5 p.m. The opening and closing prices along with major fluctuations are recorded by the Association and published in the evening for information.

For groundnuts, three Waidas i.e. business periods are in operation, the first ending in February, the second ending in May and the third ending in August. These periods have been fixed taking into consideration the arrival of new crops, movement of crops from one place to another and the end of the groundnut season. Similarly, for castorseeds and cottonseeds business periods end respectively in May and September; and in January, May and September. During these business periods futures transactions are carried on from day to day and the clearing is made fortnightly whereas the actual delivery of the goods is given at the end of the Waida. The rate on the exchange is quoted per khandie of 56 lb. and each transaction has to be made for a minimum quantity of each 100 khandies which is equivalent to 25 tons. This unit of transaction is similar for groundnuts, castorseeds and cottonseeds and is fixed as such so as to safeguard against business of a gambling character.

The other terms of contract for each of these oilseeds as prescribed by the Association are given below :—

(1) *Groundnuts* :

Refraction : Basis 4% with mutual allowances. Over 4% to 8%, proportionate allowance at full value to buyer. Over 8%

4. Area and Yield of Principal Crops in India, 1939-40.

proportionate allowance at full value plus cleaning charges at Rs. 3/- per 100 bags to the buyer.

Nuts in shell : Nothing free. Shells to the extent that their weight is equal to 10% weight of nuts in shell shall be reckoned as dirt. Over 10% and upto 15% by weight of nuts in shell, 1½ of the weight of shells be reckoned as dirt and if over 15%, the buyer shall have the option to reject.

Damaged Kernels : 2% free ; over 2% to 4% dirt, over 4% to 10%, ¼ dirt and over 10%, buyer's option to reject.

Nooks : (1/16th part of a kernel or a part smaller than it shall be termed a nook). 5% free. Over 5% upto 10%, ¼ dirt and over 10%, buyer's option to reject.

Admixture : No stipulation regarding admixture.

Presence of Castorbeans : Free upto 8 beans per one full bag of groundnuts. Seller to pay a cleaning charge of anna one per bag if the number of beans in one full bag of groundnuts exceeds 8 and is upto 35 and of annas two per bag if it is over 35.

Place of delivery : Only on Bazar Terms i.e. the buyer to take the delivery of the goods from the seller's godown and the weight of the bags to be included in that of goods.

(2) *Castorseed* :

The terms of refractions and quality of this seed are as under :

Types : Castorseeds from Madras, Cutch, Kathiawar and Gujarat districts.

Refractions : 4% reciprocal. Any other matter besides castor-seeds, oilseeds and foodstuffs should be treated as dirt. Empty seeds from 1 to 5% should be treated as ⅞ seed and ⅛ as dirt. If the empty seeds be more than 5%, 1 to 8% should be treated as ½ seed and ½ dirt. If the empty seeds be more than 8% the buyer has the option to reject the goods.

Quality : Damaged seeds upto 12% should be taken as pass without any allowance. If the percentage of damaged seeds is more than 12% the seller will have to give an allowance as under :—

13% to 17% for every 1% 1½ pies.

18% to 20% for every 1% 2 pies.

If the damaged seeds are more than 20%, the buyer has the option to reject the goods.

(3) *Cottonseeds* :

Terms of contracts of cottonseeds as formulated by the Seeds Traders' Association are as under :—

Quality of goods : Goods from Khandesh, Berar and Moglai districts. Goods of white quality are not tenderable.

Refraction : 4% reciprocal. Other oilseeds, foodstuffs, cotton in cottonseed should be treated as dirt. For settling the refraction cotton should be removed first by hand from the seeds. Empty seeds i.e. dead seeds upto 20% should be treated as ¾ seeds and ¼ as dirt. If the percentage of empty seeds (dead seeds) be more than 20%, the buyer has the option to reject the goods.

Quality : Damaged seeds upto 10% should be taken as pass. The seller will have to give an allowance as under if the percentage of damaged seeds be more than 10% :

From	11 to 15%	over 10%	for every	1%	1½	pies	per	cwt.
,,	16 to 20%	,, 15%	for ,,	1%	2	,,	,,	,,
,,	21 to 25%	,, 20%	,, ,,	1%	5	,,	,,	,,

If the goods contain more than 25% damaged seeds, the buyer has the option to reject them. Goods of Dharwar and Cambodia upto 5% can be accepted without any allowance. In case Dharwar and Cambodia goods be more than 5%, the seller will have to pay an allowance of ½ pie per cwt. for every 1% over 5".

Delivery :

The party weighing the goods at his own expenses removes the goods from the seller's godown, but the goods to be weighed must be in the godown within the municipal limits of "B" ward, i.e. in the godowns at Dongri Grain Depot, Carnac Bunder, and those lying at and between Wadi Bunder and Carnac Bridge. Goods lying in godowns other than these cannot be tendered for weighment. In case the refraction in the goods weighed is 4% or more over the refraction fixed for that kind of commodity, the seller shall have to pay the buyer a cleaning charge at the rate of Rs. 3|- per hundred bags. If in the goods weighed quality allowance is 4% or above, the buyer shall have the option to reject such goods.

Teji-Mandi Transactions :

Combined Teji-Mandi transactions or single Teji or Mandi transactions are also done under the rules of this Association. It appears from enquiries made that Teji-Mandi transactions are in-

variably settled by adjustments in cash and delivery of goods is not taken or given.

It is left to the mutual choice of the persons making such transactions as to whether premium or discount payment in regard thereto shall be made in advance, or at the end of the forward trading period. Contracts for such Teji-Mandi transactions are signed and exchanged mutually by the parties.

All Teji-Mandi transactions are squared up by 2 p.m. (S.T.) on the last day of the month previous to the month of delivery and if the market is closed on that day, on the day previous to the day of the month.

The Board of Directors appoint a sub-committee for regulating settlement of Teji-Mandi transactions relating to each period of forward trading. The sub-committee fixes and announces at 2 p.m. (S.T.) rates for settlement of Teji-Mandi transactions which are not squared up before 2 p.m. as mentioned above. The standing Teji-Mandi transactions are to be cleared at these rates.

Delivery Orders as also the brokerage in respect of Teji-Mandi are not to be exchanged as amongst the brokers ("inter-se"). Half the brokerage at the rate of the order or at the due date rate if the penalty is paid in respect of the transaction shall be paid to the broker by the merchant when the order is issued in the name of the broker by the member against sale transactions and when the order is again returned to the broker by the merchant to whom it has reached in course of circulation. Half the brokerage is paid to the broker by the merchant doing and accepting Teji-Mandi transactions in respect of the amount of Teji-Mandi combined, single Mandi or in case of the amount of Teji-Mandi paid for certain expected rates of the future.

Teji-Mandi transactions on this exchange are similar to those on other exchanges and perform the function of evenly spreading the risk as transferred by the hedgers from party to party. The premium and discount rates are also determined in accordance with the fluctuations of the market rate and conditions of trading, whether normal, bullish or bearish. The contract forms on which Teji-Mandi transactions are entered on this Association are given in Appendix B, C, D at the end of the chapter.

The Method of Clearing :

The Board fixes the clearing rate twice a month. The amount

of interest at the rate of annas eight per cent per month for the period from the day of clearing to the end of the period of forward trading (Waida) is adjusted in the clearing payments and the rate at which interest is deducted is also fixed at the time of fixing the rate of clearing. This is announced on the notice board. The clearing rate and the interest deduction rate are fixed by the Board of Directors after 3 p.m. (S.T.) on the 15th and the last day of every calendar month and, if on these days the market is closed, on the previous working days. These rates are entered in the records of the Association under the signature of the President of the meeting of the Board of Directors. Transactions thus cleared are not considered as settled for the purpose of delivery but are taken as carried forward at the rates at which they are cleared for trading in the succeeding month. According to this rate the brokers settle the accounts amongst themselves. If there is any dispute the Board settles the matter. If any broker is unable to meet his liabilities the Board by application by a member or members considers the matter and if it is proved that he has not met his liabilities the member is declared a defaulter whereupon he ceases to be a member. His card (certificate given by the Association to trade as a broker) is sold by the Board which arranges to pay off his creditors according to the amount received and to be paid.

Delivery Orders :

The clearing in the above is continued from month to month and in the last month of the Waida the delivery orders are issued just as in the Grain Merchants' Association. The transactions are first cleared at the clearing rate and differences are paid and received. When all transactions are thus made on a uniform rate i.e. the clearing rate, circulation of orders is facilitated.

Goods are tendered against delivery orders in settlement of transactions made in accordance with the bye-laws of the Association. Delivery Orders are issued for one hundred Khandies each if the transaction is in Khandies and for 25 tons each if it is in tons, at the rate fixed for clearing. The detailed rules regarding delivery orders are given in Appendix 'E' and the Delivery Form in Appendix 'F' at the end of the chapter.

Adoption of Standard Contracts :

The Seeds Traders' Association has ratified the Standard Contracts for wheat, linseed and groundnut but at present no trading in the commodities is carried on under the auspices of this Association.

The Association deals only in groundnuts, castorseed, cottonseed, etc. The Standard Contract for Groundnut (nuts in shell and kernels for crushing and hand-picked selected groundnuts) is given in Appendix 'G' & 'H' at the end of the chapter.

Settlement of Disputes :

The Managing Committee of the Association appoints an Arbitration Board to decide and dispose of disputes arising out of the dealings in trading of members of the Association. It is compulsory for members to have all such claims and disputes settled by arbitration, subject to the bye-laws of the Association from time to time in force.[5] In this Association, the President appoints an Arbitration Committee of five members, three from the merchant class and two from the broker class of the Board of Directors.

The decision of the Arbitration Board is binding on both parties. An appeal against this decision lies to the Board of Directors, whose decision in the matter is final.

Survey of Goods :

In case of disputes regarding refraction, quality, weight and packing a survey is held. The system of appointing surveyors, drawing out samples, analysis and the survey report are similar to those of the Grain Merchants' Association.

Volume of Trading :

A rough idea of the business standing in each delivery month can be given by the following table :

Table II

Quantities of groundnut kernels, castorseed and cottonseed actually delivered against contracts for different options.

(Tons)

Kind of commodity.		1939	1940	1941
Groundnuts	February	1,28,975	1,12,250	1,06,250
„	May	92,500	1,10,250	93,750
„	August	1,44,750	60,250	1,20,250
Castorseed	May	24,600	33,175	17,000
„	September	16,650	12,075	18,625
Cottonseed	January	12,625	47,250	63,750
„	May	52,075	11,575	55,000
„	September	49,900	11,850	31,125

5. Articles of Association, Clause 42

These figures indicate the volume of goods actually delivered after the series of transactions made in course of the Waida are squared up for the purpose of clearing. As records regarding transactions for each month of the Waida are not obtainable it is not possible to ascertain the total volume of business done on the exchange in a particular Waida which usually is cleared at each monthly or fortnightly clearing. However, these figures of actual delivery of goods point to the trade position in February, i.e. the new crop season, May, the midst of the season and August, the end of the season, in case of groundnuts. Similarly, for castorseeds and cottonseeds these figures indicate the trade position in respective Waidas.

Significance of Rules and Regulations :

As stated earlier, in the Grain Merchants' Association the members are only merchants and the brokers are not eligible for membership. Accordingly the transactions are between merchants and the brokers only bring into contact the selling and the buying parties. Under the Seeds Traders' Association the transactions are between brokers who also are admitted as broker members of the Association. The merchant class of members of the Seeds Traders' Association also have to put through their transactions through the broker class of members and cannot make transactions in their own names. In the Grain Merchants' Association, the principal parties are thus made known to each other whereas in the Seeds Traders' Association the selling and the buying party remain in the background and the names of the brokers are only known.

The Seeds Traders' Association functioning as it does on the lines of an exchange is concerned with handling of actual goods only at the end of the respective Waidas for the different kinds of oilseeds. Accordingly, while the Waidas are in force the Association is mainly concerned with maintaining the healthy conditions of the market wherein transactions by hedgers, speculators and the public are made from day to day. In order that such a state of the market may be maintained the Association has to watch the market rates which are not allowed to reach exceptionally high or low levels, precipitating a crisis. Further, during the course of the Waida attention is fixed on periodical clearings, and special rules are formulated to systematise the clearing system.

As pointed out before, in the Seeds Traders' Association clear-

ing is made twice a month, while in the Grain Merchants' Association it is made once in the whole period of the Waida. The system of short clearing is adopted in order to meet uncertain trade conditions and the bigger volume of trading at this Association.

Transactions of members are not recorded at this Association. This makes it difficult to estimate the exact volume of trading at this and the Grain Merchants' Association also. The present fortnightly clearing is far too long. Weekly settlement should be preferable and the institution of weekly clearing house settlement should be introduced as, due to uncertain trade conditions, there are wide fluctuations in the market and it might not be possible to know the commitments of the respective brokers.

Besides as the business on this exchange is voluminous, cases occasionally arise when parties default in payments. Rules have been framed to safeguard the interests of the members. The rules regarding defaults are given in Appendix 'F' at the end of the chapter.

Regarding the working of the Grain Merchants' Association and the Seeds Traders' Association it should be stated that the Seeds Traders' Association being an exchange in oilseeds has assumed a greater responsibility like the East India Cotton Association Limited than the Grain Merchants' Association. The Grain Merchants' Association has framed rules and regulations suitable to transactions in ready goods and the question of delivery and payment and other matters relating thereto arise in case of this Association from day to day whereas the same is not the case with the Seeds Traders' Association. Naturally, therefore, when the actual methods of trading are different, the general rules and regulations also are framed in such a manner that more attention is given to the requirements of the particular methods of trading. On the whole though the rules and regulations of these two Associations would appear to be similar, it has to be borne in mind that the difference which exists in the method of trading is very important and significant. The Seeds Traders' Association is responsible for prices of Groundnut, Castorseed, and Cottonseed not only in Bombay but in all the oilseeds producing parts of this Presidency. The rates of the market of the Seeds Traders' Association influence directly the rates in the producing areas as also in other oilseeds markets.

The Seeds Traders' Association daily obtains and records the rates as prevalent from time to time and from day to day on the exchange so as to enable the members to judge and compare the trade position from time to time and between different Waidas. In the case of an exchange like the Seeds Traders' Association this is fundamentally necessary as it is concerned more with prices of goods rather than its disposal or arrival into Bombay. The members also individually maintain their own records and graphs, charts, etc., are prepared by them for reference. However, it has to be pointed out that the Association has not made any attempt to study the influences affecting prices from day to day and as such the Association is not in a position to supply information which can meet the requirements of a practical business man. The members, however, possess this information and can supply full details regarding the trade outlook of a series of years. A body like the Seeds Traders' Association can effectively guide the trade if brief reports about Indian and foreign conditions affecting groundnuts, castorseed, cottonseed, etc. is daily published. Such a report will greatly help to accelerate the progress of the trade.

APPENDIX TO CHAPTER V

A. *The objects of the Seeds Traders' Association as stated in the Memorandum of Association are :—*

The objects for which the Association is established are :

(a) To acquire the whole or any part of the property and assets of any Association dealing in the raw produce of India such as seeds, oils, oilcakes, grains, cereals, wheat and other commodities and in particular to take over the whole of the undertaking, property and assets and all the debts, liabilities and engagements of the Seeds Traders' Association carrying on business in Bombay.

(b) To promote and protect the interests of persons engaged and interested in the trade or business of raw produce of India such as seeds, oils, oilcakes, grains, cereals, wheat and other commodities.

(c) To create and establish just and equitable traditions and principles and to maintain uniformity of control, Rules, Regulations and usages in the trade in the said commodities, to fix or adopt standards of classification therein, to acquire, preserve and disseminate useful information connected with the said trade or business throughout all markets or otherwise, to decrease, or insure the local risk attendant upon the business and generally to promote, control and regulate the trade in the said commodities.

(d) To provide forms of contracts and to frame Rules, Regulations and Bye-Laws for the regulation and control of the transactions in the aforesaid commodities and particularly for the regulation of the making, performance and cancellation of contracts, including contracts between merchants and brokers and their constituents or between Members and Non-Members.

(e) To remove all causes of friction and to adjust commodities between persons engaged in the said Trade.

(f) To promote unity, goodwill and friendliness amongst the members and to preserve, maintain and improve the interests of persons engaged in the said trade.

(g) To consider all questions relating to the rights and privileges of the persons engaged in the said trade and to consider and devise ways and means for removing difficulties in their ways in a just, lawful and constitutional manner and to promote or oppose legislative and other measures affecting the trade in the said commodities and, if necessary, for the purposes aforesaid to carry on correspondence with Government, Railways, Telegraphic and Postal Authorities, persons or bodies controlling Aerial transport, Banks, Port Trust, Improvement Trust, Municipal or local authorities, Native or Foreign States or any private or public Association.

(h) To act as Mediators, Arbitrators or Surveyors in all matters of difference, disputes of claims between the Members of the Association

inter se or between members and their constituents or between members and non-members or between persons engaged in the said trade.

(i) To establish, regulate and maintain a Clearing House for the purpose of dealing with the transactions in the said commodities and to regulate and control the admission to the same and to prohibit the user thereof and to determine the nature and times of such user whether for the general body or for particular classes or any individual or firm or Company using the Clearing House.

(j) To levy, take, recover and receive fees from the members for membership and other privileges given by the Association and to levy, take, recover and receive rates, tolls, cess, charges and other sums of money, on, for and in respect of the commodities in which the Association and its members or (if and in so far as any necessary authority in that behalf is obtained) others not connected with the Association are in any way interested or concerned and to levy, take, recover, and receive fines and penalties on and from delinquent members.

(k) To establish and maintain institutions for imparting instructions and training in Commerce, Commercial English, Commercial Correspondence, Accountancy, Auditing, Banking and other alike subjects.

(l) To facilitate due shipment and delivery of the said commodities and to consider all questions as to the leading, carriage by land or sea delivery and insurance in respect thereof and to take such action therein as the Association may think fit.

(m) To bring, prosecute, or defend, or aid in bringing, prosecuting or defending any suits, sections, proceedings, applications or arbitrations on behalf of the Association or of the members of the Association or otherwise as the Association may think proper or conducive to the objects of the Association.

(n) To obtain sanction of the Government of India or Government of Bombay or any other Provincial Government or Native States for enabling the Association to carry on all or any of its objects into effect or for amending the laws affecting any persons dealing in the said commodities.

(o) To purchase, take on lease or in exchange, hire or otherwise acquire any moveable or immoveable property or any rights and privileges which the Association may think necessary or convenient for the purposes of its business and in particular any land, buildings and easements and to erect and construct any buildings and if necessary to sell, improve, develop, lease, mortgage or dispose of the same or any part thereof.

(p) To issue, acquire, use, deal in, pledge, mortgage, transfer, assign or sell mercantile documents of every kind and description and without prejudice to this generality to draw, make, accept, endorse, discount, issue, negotiate and assign cheques, drafts, bills of exchange, promissory notes, hundies, debentures, bonds, railway receipts, bills of lading and other negotiable mercantile or transferable instrument or securities and to purchase, sell, endorse and surrender for removal any Government Pro-

missory Notes or bonds or other securities of the Government of India or any other Government whether within or without the British Empire.

(q) To insure any of the said commodities belonging to any Member, (Merchant and/or Broker) against loss by fire.

(r) To communicate with Chambers of Commerce and other Mercantile and Public Bodies throughout the world and to participate in their activities and correct and promote measures for the protection of the trade in the aforesaid commodities.

(s) To take part in any Organisation or Association for the welfare of the labour engaged in the trade in the aforesaid commodities and to send representations of the Association to the International Conference of the Association under the auspices of the League of Nations and to take part in the deliberations of the questions relating to the welfare of the labour engaged in the trades in the said commodities and to promote, support, follow, and abide by the activities and conventions thereof and to oppose such measures as may be found to be prejudicial to the interests of the labour engaged in the trade in the said commodities.

(t) To invest and advance the moneys of the Association upon such securities or without any security and at or without interest as may from time to time be determined.

(u) To receive money on deposits at interest or otherwise.

(v) To raise money in such other manner as the Association shall think fit and in particular by the creation and issue of debentures or debenture stock upon all or any of the assets of the Association.

(w) To set apart and create special funds with special objects and apply the same or any part thereof or the interest or income thereof or any part thereof for all or any of such special objects.

APPENDIX TO CHAPTER V

B. *Official Non-member's Option Contract Form (Draft).*

No........... Bombay..............194

To

Mr./Messrs. ....

I/We have this day bought from you in Bombay, subject to the Articles and Bye-laws of the Seeds Traders' Association Ltd., in force now and from time to time in future and subject to the following terms :—

The option to purchase (Teji)
The option to sell (Mandi)

The double option to purchase or sell (Teji-Mandi)............... Candies/maunds of Groundnuts/Castorseeds/Cottonseeds/Linseed for ....delivery in consideration for which I/we have to pay to you as premium a sum of Rs. .... (..............) only at the rate of ....on the basis of Rs. .... per Candy/Maund.

TERMS.

*(1) This contract expires on the last day preceding the Delivery month.

(2) After I/we exercise my/our option to purchase or sell, a contract for or sale accordingly made, will be forwarded to you, which you will be bound to sign and return to me/us. In the event of your refusal or failure to return the counterpart duly signed, the terms of the contract shall be binding on you as they would, if you did sign the same.

(3) You will be bound to pay me/us in Bombay the amount of margin to cover the rise or fall in the rates whenever demanded by me/us till the expiry date. In case such margin money does not reach me/us in Bombay within three days of the receipt by you of my/our notice of demand, I/we shall have right thereafter to close at my/our this contract at the market rate at your risk and account.

(4) When, after I/we exercised my/our option, a contract for purchase or sale is accordingly made, both parties shall be responsible for fulfilling the same by delivery according to the Bye-laws.

(5) In the event of any dispute arising out of or in connection with this contract, both parties shall be bound to refer the same to Arbitration according to the Bye-laws of the Seeds Traders' Association Limited and to abide by the award made thereunder.

(6) Commission and/or Brokerage shall be paid by you to me/us at the rate of Rs. .... per Candy/Maund.

Signature......

APPENDIX TO CHAPTER V

C. *Official Non-member's Option Contract Form (Draft).*

CONFIRMATION

No.......... Bombay.................194

To

Mr./Messrs. ....

I/We hereby confirm having bought from you in Bombay, subject to the Articles and Bye-laws of the Seeds Traders' Association Limited, in force now and from time to time in future and subject to the following terms :—

The option to purchase (Teji)

The option to sell (Mandi)

The double option to purchase or sell (Teji-Mandi)............... Candies/Maunds of Groundnuts/Castorseeds/Cottonseeds/Linseeds for ....delivery in consideration for which I/we have paid to you as premium a sum of Rs. .... (............) only at the rate of ....on the basis of Rs. .... per Candy/Maund. (I/We have to pay to you as premium a sum of Rs. .... per Candy/ Maund, which amount has this day been credited to your account).

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* If a holiday is declared by the Association on the last day preceding the delivery month, then the expiry date of the contract will be the day immediately preceding the holiday.

TERMS.

(1) I/We have entered into this Contract with you on my/our own account and risk.

(2) I/We undertake to abide by the Bye-laws and Articles of the Seeds Traders' Association Limited and to comply with all your terms and conditions of business and I/we hereby authorise you in the event of my/our failing in this undertaking to close this contract or any part thereof at your option at my/our risk and account either immediately or at such later time as you deem fit, without giving me/us any further notice notwithstanding any objections and/or instructions from me/us to the contrary. I/We am/are responsible for any loss arising from this contract being closed by you as above.

(3) In the event of any dispute arising between you and me/us out of this contract, I/we agree to refer the same to Arbitration in Bombay as provided by the Bye-laws of the Seeds Traders' Association Limited and abide by the Arbitration award made thereunder.

Signature....................

APPENDIX TO CHAPTER V

D. *Official Non-members' Option Contract Form (Draft).*

No............ Bombay............ 194 .

To

Mr./Messrs.. ....

I/We have this day sold to you in Bombay, subject to the Articles and Bye-laws of the Seeds Traders' Association Limited in force now and from time to time in future and subject to the following terms :—

The option to purchase (Teji)

The option to sell (Mandi)

The double option to purchase or sell (Teji-Mandi) .... Candies/Maunds of Groundnuts/Castorseeds/Cottonseeds/Linseeds for ....delivery in consideration for which I/we have received from you as premium a sum of Rs. .... only at the rate of .... on the basis of Rs. .... per Candy/Maund. (You have to pay me/us as premium a sum of Rs. .... (.............) only at the rate of .... on the basis of Rs. .... per Candy/maund, which amount has thus been debited to your account).

TERMS.

*(1) This contract expires on the last date of the month preceding the Delivery month.

* If the premium is paid at the time of making this contract or any time before the expiry date it should be done after deducting the amount of interest.

If a holiday declared by the Association falls on the last day preceding the Delivery month, then expiry date of the contract will be the day immediately preceding the holiday.

(2) After you exercise your option to purchase or sell, a contract for purchase or sale accordingly made will be forwarded to you which you will be bound to sign and return to us. In the event of your refusal or failure to return the counterpart duly signed, the terms of the contract shall be binding on you as they would, if you did sign the same.

(3) You shall remit to me/us in Bombay the above amount of premium whenever demanded by me/us upto the expiry date. If you fail to pay the said amount within three days of receipt of my/our notice of demand, I/we shall have right thereafter without further reference to you to close at my/our discretion at your risk and account this contract at the market rate of the day.

(4) When, after you have exercised your option, a contract for purchase or sale is accordingly made, both parties shall be responsible for fulfilling the same by delivery according to the Bye-laws.

(5) In the event of any dispute arising out of or in connection with this contract, both parties shall be bound to refer the same to Arbitration according to the bye-laws of the Seeds Traders' Association Limited, and to abide by the award thereunder.

(6) Commission and/or Brokerage shall be paid by you to me/us at the rate of Rs. .... per Candy/Maund.

Signature...................

APPENDIX TO CHAPTER V

F. *Delivery Order Form.*

No. .... Bombay, Date ....19 .

Name of the Muccadum ....
Address ....

To WIT. Please deliver on our behalf to (name) .... according to the Rules and Regulations of the Seeds Traders' Association 100 candies of (article) .... at the rate ....

Signature...................

The last due date for presenting

the Delivery ORDER ....

Note : This Delivery Order is issued in accordance with the Rules and Regulations of the Seeds Traders' Association.

Please deliver on your behalf the goods of this Delivery Order to (name) ....

Signature..

Date

APPENDIX TO CHAPTER V

I. *Default in Payment and Action by the Association.*

(1) A broker may close the account of any customer who fails to make such payment either forthwith or any time thereafter in his discretion, during the time such customer is in default and any balance due on such closing shall be immediately payable by such customer to his broker.

A broker may, forthwith or at the earliest practicable date, close all open transactions on account of a customer who has died and the balance due on such closing shall be payable on the ensuing pay-day.

(2) No fresh transactions can be entered into with the defaulter.

(3) The officer in charge of the Association on receiving written information of any member not paying or not having paid the amount on the pay-day shall, on the day following the pay-day or as soon as possible, call the meeting or special urgent meeting of the Managing Committee and such a meeting of the Managing Committee, if thought fit, declare the party failing to make such payment as defaulter, after hearing the party failing to make such payment, if he be present, or ex parte, if he be not present.

(4) The standing transactions of the party declared as defaulter shall be taken to have been equalised at the rate fixed by the Managing Committee for equalisation of his transactions at the time of his declaration as the defaulter.

(5) The creditor member having received his dividend, which may be less than his full due, cannot be said as having his debt fully satisfied, but such a creditor can recover the balance from the defaulter by means which may not be detrimental to the Association, or to the other members of the Association.

(6) The Managing Committee fixes a time for the settlement of the standing transactions, or may resolve upon rates at which the standing transactions be considered as settled in respect of a member whose name may be struck off the roll on account of his default.

APPENDIX TO CHAPTER V

E. *Delivery Orders.*

(1) In respect of the standing transactions of a particular Waida for different articles, the sellers from the 5th up to the date five days before the last day of the month of the Waida, with a view to having the goods of the transaction weighed over, shall have the details filled up in the Delivery Order Form of the Association and send the order to the buyer.

(2) All transfer entries of the standing transactions with a view to taking them as settled between the intermediate parties are made before the date fixed for the issue of the Delivery Orders.

(3) Every Order is issued for 100 candies, if the transaction be in candies, and for 25 tons, if the transaction be in tons, and at the rate fixed at the last clearing.

(4) Transfer of Delivery Orders can be made between members only, and the members can weigh or have weighed the goods of the order either by themselves or through their muccadums or agents.

(5) The sellers can have the order issued for such goods only as are in their own godown or in the godown of their agents or muccadams.

(6) The date of the maturity of the Delivery Order, that is the period for presenting it to the party to deliver the goods, is at least four clear working days, excluding Sundays and/or holidays, from the date of its issue. It (the D.O.) must be passed from party to party till 1 P.M. on the day fixed for presenting it. The Delivery Order must reach the last buyer on the 5th day from the date of issue.

(7) Delivery Orders can be passed between 12 noon (S.T.) and 5 P.M. every day.

(8) Delivery Orders must be transferred by brokers between 4 and 5 P.M. (S. T.) in the rooms of the Association on the day preceding the day on which the order is due for presentation. If the broker be not present at the time to accept the Delivery Order, and if the order be handed over to the Association before 1 P.M. on the succeeding day, such order will be taken to have been accepted by such absent broker.

(9) On the working day immediately preceding the last day of the Waida the Bazar is closed at 3 P.M. and between 3 P.M. and 5 P.M. the brokers meet in the office room of the Association, and pass on the standing Delivery Orders. Two of the officers of the Association must be present at that time. If a broker is not present at that time and if any of the Orders is passed on to him, such an Order is taken to have been passed on to him, and then it cannot be passed further on.

(10) The party presenting the Delivery Order shall ask the party to whom (i.e. the party to give delivery) it may be presented, to put down the time and date of its presentation. If placing the time and date be refused, the member presenting the Order must at once give a written application to that effect to the office of the Association. On receipt of the application by the Association about refusal by the seller or his representative to put down the time and date of presentation, the seller is taken to have issued a bogus order.

(11) During the period the Delivery Order is maturing, if the party issuing the Order, for the convenience of presentation, extends the period, then in that case both the said parties shall attend the office of the Association, and after having got it noted down, can have the period extended and thereafter the said Order can be circulated further among the parties.

(12) After the Order is issued the party issuing it must, as soon as possible, pass it on to his purchaser, and thereafter it must be quickly passed from party to party.

(13) If the seller does not, within the period fixed for issuing the Orders get issued the Orders in respect of the standing transactions of sales, his sales will be considered bogus and for the same he shall have to pay to the buyer an amount equal to 3% of the value of the goods, as fixed by the committee recording the rates.

(14) If the seller, without being in possession of the goods, gets a bogus Delivery Order issued and if he cannot produce the goods on the buyer's offering to weigh the goods, the buyer shall within 24 hours give a written application to the Association to that effect. The Association shall verify the facts and on verification in respect of such Order, the seller shall have to pay 6% i.e., double the penalty, in addition to the closing rates of the day.

APPENDIX TO CHAPTER V

G. *Terms of All-India Standard Contract for groundnut kernels.*

I. *Types* :—

Standard contract terms for grounds shall apply to the following six types :

1. Khandesh	Consisting of small round kernels grown in East and West Khandesh districts.
2. Khandesh Quality (Peanuts).	Consisting of small round kernels grown in any part of India other than East and West Khandesh districts.
3. Bold.	Consisting of large long kernels grown in any part of India other than Kathiawar.
4. Kathiawar Bold	Consisting of large long kernels grown in Kathiawar.
5. Coromandel	Consisting of medium long kernels.
6. Red Natal	Consisting of round thick red kernels.

II. *Description* :—

The kernels shall be fair average quality of the season, true to type.

III. *Condition* :—

The groundnuts shall be in a thoroughly dry condition. Goods showing signs of moisture shall be dried and the loss in weight and expenses incurred in drying shall be borne by the seller.

When the driage cannot be amicably settled, the following procedure shall be adopted.

A representative sample of the kernels shall be exposed to the sun for an hour in single layers in trays made of material which is a non-conductor of heat. The loss in weight due to drying shall be borne by sellers and when the loss in weight exceeds 1½ per cent, an additional reconditioning charge at Rs. 3—8—0 per 100 bags shall also be payable by sellers.

IV. ***Refraction and allowances***

*Refraction	Basis 4 per cent with mutual allowance. Over 4 to 8 per cent proportionate allowance at full value to buyer. Over 8 per cent proportionate allowance at full value plus clearing charges at Rs. 3—8—0 per 100 bags.
Nuts in shell	Nothing free. Upto 10 per cent by weight of nuts. In shell, the amount of shell present shall be calculated and reckoned as dirt. Over 10 per cent by weight of nuts in shell, rejection at buyer's option.
[1]Damaged kernels	2 per cent free. Over 2 per cent to 4 per cent, the whole to be reckoned as one-fourth dirt. Over 4 per cent to 10 per cent, the whole to be reckoned as half dirt. Over 10 per cent, rejection at buyer's option.
[2]Splits	25 per cent free. Excess over 25 per cent to be reckoned as one-sixteenth dirt.
[3]Broken kernels	10 per cent free. Excess over 10 per cent to be reckoned as one-eighth dirt.
[4]Nooks.	5 per cent free. Excess over 5 per cent to be reckoned as one-fourth dirt. Over 10 per cent rejection at buyer's option.
Shrivelled kernels (dead seeds)	2 per cent free. Excess over 2 per cent to be reckoned as one-fourth dirt.
Admixture of different types :	
Red Natal in any other type.	1 per cent free. Excess over 1 per cent upto 5 per cent to be reckoned as one-eighth dirt. Over 5 per cent rejection at buyer's option.
Any type (except Red Natal) in any other type.	5 per cent free. Excess over 5 per cent upto 10 per cent to be reckoned as one-eighth dirt. Over 10 per cent, rejection at buyer's option.
Presence of castor-seed.	Nothing free. The presence of traces of castor seed or husk will give the buyer option to clean at seller's expense subject to a maximum cleaning charge for handpicking at two annas per bag.

Note :—Refraction includes dirt, stones, shell, other seeds, foreign matter plus such proportions of nuts in shell, damaged kernels, splits, broken kernels, nooks and shrivelled kernels as are reckoned as " dirt ".

1. Damaged includes kernels internally damaged and slightly damaged.
2. Kernels broken lengthwise in two halves only.
3. Kernels smaller than splits but bigger than nooks.
4. Pieces $\frac{1}{8}$th or less than $\frac{1}{8}$th a whole kernel.

Rejection conditions :—

(a) When nuts in shell exceed 10 per cent.

(b) When damaged kernels exceed 10 per cent.

(c) When nooks exceed 10 per cent.

(d) When Red Natal in any other type exceeds 5 per cent.

(e) When the admixture of any type with any other type exceeds 10%.

V. Miscellaneous :—

Unit of quotation—Maund ($82^2/_7$ lb.)

Month of delivery for "futures"—February, May, August, and November.

Minimum unit of transaction for "futures"—500 maunds.

Gunnies—New B. Twill bags.

APPENDIX TO CHAPTER V

H. *Terms of Standard Contract for handpicked selected groundnuts (kernels and nuts in shell).*

KERNELS

Definition.—Handpicked selected groundnut kernels shall be dry and reasonably uniform in size.

Grades.—Handpicked selected kernels :—

Special Bold No. 1	Having a count of 32/34 kernels per ounce.
Special Bold No. 2	Having a count of 34/36 kernels per ounce.
Special Bold No. 3	Having a count of 36/38 kernels per ounce.
Special Bold No. 4	Having a count of 38/40 kernels per ounce.
Special Bold No. 5	Having a count of 40/42 kernels per ounce.
Ordinary Bold No. 1	Having a count of 42/45 kernels per ounce.
Ordinary Bold No. 2	Having a count of 45/48 kernels per ounce.
Ordinary Bold No. 3	Having a count of 48/50 kernels per ounce.
Peanuts :	
(Java type) No. 1.	Having a count of 70/75 kernels per ounce.
Peanuts :	
(Java type) No. 2	Having a count of 75/80 kernels per ounce.

Allowance.—Excess kernels per ounce :—

Special Bold.—For every kernel in excess of the lower size limit fixed for the grade, allowance at 4 annas per cwt. Buyer's option to reject if the kernels exceed the lower limit by more than 2.

Ordinary Bold.—For every kernel in excess of the lower size limit fixed for the grade, allowance at 2 annas per cwt. Buyer's option to reject if the kernels exceed the lower limit by more than 3.

Peanuts (Java type).—For every kernels in excess of the lower size limit fixed for the grade, allowance at 1 anna per cwt. Buyer's option to reject if the kernels exceed the lower limit by 5.

Impurities.—Upto 1 oz. in a bag—No allowance. Over 1 oz. to 2½

oz. in a bag—Cleaning charge[1] at 1½ annas per bag. Over 2½ oz. in a bag—Buyer's option to reject.

Damaged[2] and slightly damaged kernels.—Upto 1 oz. in a bag—No allowance. Over 1 oz. in a bag—Excess over 1 oz. to be reckoned of no value. Over 2 oz. to 4 oz. in a bag—Cleaning charge[1] at 1½ anna per bag. Over 4 oz. in a bag—Buyer's option to reject.

Skinned[3] kernels.—Upto 5 oz. in a bag—Free. Over 5 oz. in a bag—Cleaning charge[1] at 1½ annas per bag.

Broken (including split) kernels.—Upto 1 oz. in a bag—No allowance. Over 1 oz. to 2 oz. in a bag—Cleaning charge[1] at 1½ annas per bag. Over 2 oz. in a bag—Buyer's option to reject.

Packing.—New B. Twill bags containing 177 to 185 lb. net each. If packed in any other bags, the bags shall be returned to the seller who shall supply or pay the cost of New B. Twill bags together with a repacking charge at 1 anna per bag.

Unit of quotation.—Hundredweight.

NUTS IN SHELL

Definition.—Handpicked selected groundnuts in shell shall be dry and reasonably uniform in size with outwardly two well defined sections in each nut. The shell shall be clean, bright and whitish colour.

Grades.—Handpicked selected groundnuts in shell :—

Bold ..	Having a count of 13/14 nuts in shell per ounce.
Small ..	Having a count of 17/19 nuts in shell per ounce.

Allowances.—Excess nuts per ounce :—

Bold ..	For every nut in excess of the lower limit, allowance at 4 annas per maund calculated to the nearest one-fourth of a nut. Buyer entitled to reject, if the nuts exceed the lower limit by more than 1.
Small ..	For every nut in excess of the lower limit, allowance at 2 annas per maund calculated to the nearest one-fourth of a nut. Buyer entitled to reject, if the nuts exceed the lower limit by more than 1.

Impurities.—Upto 2 oz. in a bag of 73 lb. net in case of Bold and 32 lb. in case of Small—Free. Over 2 oz.—Seller to clean or pay cleaning charge at 2 annas per bag at seller's option.

Empty and broken nuts in shell.—Shell from empty and broken nuts upto ½ oz. in a bag—Free. Over ½ oz. to 2 oz. in a bag—Excess over ½ oz. reckoned at half value. Over 2 oz. to 4 oz. in a bag

1. The buyer shall be entitled to only one cleaning charge.
2. For ascertaining "damaged" kernels, the buyer shall break only those kernels which are drawn out by him.
3. Kernels which have lost the thin red skin covering.

—Excess over 2 oz. reckoned of no value. Over 4 oz. in a bag —Rejection at buyer's option.

Discoloured and damaged nuts in shell.—Upto 1 per cent—Free. Over 1 to 2 per cent.—Excess over 1 per cent reckoned at half value. Over 2 to 5 per cent—Excess over 2 per cent reckoned of no value. Over 5 per cent—Rejection at buyer's option.

Note : The discoloured nuts shall include nuts which have excess of adhering earth. The damaged nuts shall include nuts mechanically damaged and nuts damaged by insects.

Packing.— Bold Clean sound gunny bags 72 lb. net.
Small Clean sound gunny bags 82 lb. net.

Unit of quotation.—Hundredweight.

CHAPTER VI

THE MARWADI CHAMBER OF COMMERCE

THE Marwadi Chamber of Commerce was founded in 1914, and incorporated under the Indian Companies Act eleven years later. It is a non-profit sharing association as contrasted with private companies with a limited liability operating on a profit sharing basis under the Indian Companies Act 1913, Section 13. Notable in the former category are this Chamber, the Seeds Traders' Association and the Chamber of Commerce, Hapur ; and in the latter the Amritsar Produce Exchange, Limited, and the Sham Chamber Limited, Lyallpur. The Marwadi Chamber of Commerce has its own building on the Kalbadevi Road near the Cotton Exchange. A number of amenities are provided by the Chamber, amongst which is a spacious trading hall, surrounded by conveniently situated rooms rented out to members, and fitted with telephones. At present, the members of the Chamber deal only in wheat and linseed. The work of the Chamber may be described by reference to : (1) the organisation of the Chamber ; (2) the classification and methods of business ; (3) the clearing system ; (4) machinery for settling disputes ; (5) the amount of trading done at this Association ; and (6) the significance of certain rules and regulations.

Aims and Objects :

The chief objects of this Association are :—

(1) To promote and protect the interests of merchants carrying on business in Bombay, especially in seeds, including linseed, rapeseed, sesamum, wheat and other grains, and in *hundi*, *chithi* and other banking business, and in general, cotton, Indian piece-goods, gold and silver, etc., and to regulate their methods of doing business and remove all causes of friction between such merchants " inter se " and between them and their constituents.

(2) To prepare detailed information as regards the aforesaid commodities with a view to further, as much as possible, the interests of merchants dealing in the same, and to prescribe the principles of framing contracts in the aforesaid commodities with a view to eliminate temptations or the possibility of speculative manipulation.

Membership.

The Chamber consists of 283 members, 203 Ordinary members, 77 Associate members and 3 Special members. A large number of members belong to the Marwadi Community. The membership of the Chamber falls under four classes and embraces commission agents, Muccadams, brokers and shroffs. The Board of Directors consists of 25 directors elected by Panels of Shroffs, Commission Agents and Brokers. There are various committees through which the administration of the Chamber is carried on. They are the Clearing House Committee, the Arbitration Committee, the Survey Appeal Committee, and the Daily Rate Committee.

The revenue is derived from two sources, the subscriptions of members, consisting of entrance fee and annual dues and the fees charged for certain services rendered to the trade. While on the Liverpool Corn Trade Association members are admitted on a heavy deposit of £1000 in cash or its equivalent with the Association, membership on the Indian exchanges is ordinarily restricted to members or firms with a high standard of commercial integrity.

(2) *Classes and Methods of Business.*

In the Marwadi Chamber of Commerce both spot and forward transactions take place. Spot business under the Chamber is mostly done on the lines similar to the Bazar Dhara terms of the Grain Merchants' Association. The godowns of the members are situated at Dana Bunder and most of the members being also members of the Grain Merchants' Association at times make transactions also on the Grain Merchants' Association. But when actual delivery of goods is to be made in respect of Waida transactions in wheat and linseed the rules of the Chamber are observed.

The following contracts have been fixed for the undernoted deliveries of wheat and oilseeds :

Contracts.	*Deliveries.*
White Wheat.	May
	July
	September
	November
	January
	March

Brown Bold Linseed.	May
	September
	February
Groundnut Bold.	February
	May
	September

For White Wheat only May and September Waidas are in operation and additional Waidas are opened according to the requirements of the trade when necessary. The same is the case with Linseed.

The Standard Contract for wheat has been adopted by Marwadi Chamber of Commerce, which largely controls the trading in wheat "futures" in Bombay. The Committee of the Chamber has recently proposed that the unit of quotation should be the hundredweight instead of the maund and the minimum unit of transaction for futures trading be 25 tons instead of 500 maunds. This change is incorporated in the rules and is at present included in their contracts. In favour of this change, it is argued that two different units in the same market handicapped trading. The Annual Report of the Marketing Officers' Conference, 1941, states that a small conference of representatives of the three associations was arranged at Bombay in February 1941, with a view to bringing about uniformity in their contract terms. The Conference went through the terms of the contract and besides suggesting certain changes in tolerances and limits of rejection for damages, slightly damaged and shrivelled grains, and limits of rejection, recommended (a) that 25 tons be adopted as an alternative to 500 maunds as the minimum unit of transaction, (b) that the Cwt. should be adopted as an alternative to the maund as the unit of quotation. Though it was not welcomed by other associations and millers, it has been decided that the Standard Contract for Wheat, as finally agreed to at the Grain and Oilseeds Conference 1938, should be amended to the extent of including 25 tons as unit of transaction and Cwt. as unit of quotation.

As regards Linseed, the Marwadi Chamber of Commerce operated the Standard Contract for some time. The Committee of the Chamber has recently proposed changes in the Linseed Contract regarding the unit of quotation, the minimum unit of transaction for future trading as in the case of wheat viz., the Cwt. in place of the maund and 25 tons instead of 500 maunds.

Forward contracts in wheat and linseed are in operation under the Chamber and though groundnut transactions are not in operation in their futures market they have also adopted Standard Contract for groundnuts (in shells and kernels). The contract terms relating to groundnuts are (the same as) given at the end of Chapter V in Appendix H.

We shall give below the tenderable qualities for wheat, linseed and groundnuts :—

White Wheat (Fair Tender): In contracts for White Wheat, only such White Wheat will be considered tenderable which are grown in districts and parts of (1) Punjab, Sind, Frontier Provinces, Rajputana and United Provinces, and other stations on which a list is kept ; (2) the grains of which are sound and dry ; and (3) not inferior to fair average quality of the season. Goods of 4 districts in the Central Provinces and United Provinces namely, Jhansi, Jallo, Banda, and Hamirpur, and also of the Native States of Gwalior, Indore, Bhopal and Kotah, which are soft white wheat and Durum wheat cannot be tendered according to bye-law No. 38.

Linseed (Fair Tender) : In contracts for Brown Bold Linseed goods of the quality of Brown Bold grown in any part of India is to be considered tenderable and should be of the season for which the Contract has been made and should not be of inferior quality to the fair average quality of the season and in one gramme there should not be more than 145 grains.

Groundnuts (Fair Tender) : In Groundnuts Bold Contract only such groundnuts are tenderable as are of the fair average quality of the season. Sholapur, Barsi, Kolhapur, Karad, Kathiawar, Gujarat, Berar, United Provinces and Punjab.

Some of the important rules framed by the Chamber in respect of business for the above contracts are given in Appendix 'A' at the end of the Chapter.

Teji-Mandi Transactions :

Next to open transactions[1] are the Teji-Mandi transactions entered in accordance with the terms of the settlement contracts in force.

1. Open transactions are those transactions wherein difference is to be paid or deliveries to be given whenever prices go against the price at which the transaction was made.

Teji-Mandi contracts can be effected according to the contracts and delivery period in force in case of linseed, wheat and groundnuts upto 25th day of the month previous to the month in which delivery is to be effected. This date has been fixed so as to enable all transactions of Teji-Mandi to be squared up at the latest by that date, and delivery of goods in respect of such transactions may be facilitated.

Teji-Mandi transactions are done either in writing or verbally. Written contracts are executed on the Chamber's official form. The terms of this form are also applicable to business entered into verbally. For the completion of Teji-Mandi contracts that are effected between members, the applier and the taker, on the day the contracts are to be declared signed between themselves have to declare them, i.e., call out "Liya" that is bought, "Bechi" i.e., Sold or "Gali" i.e. liquidated. After the contracts are declared in the above manner both the applier and the taker have to sign the official contract form. The non-member who applies Teji-Mandi has to send the premium money or the margin to the member in Bombay within three days of the receipt of the intimation. If the non-member fails to do so, then the member has the right to cancel the Teji-Mandi contract at the risk and cost of the non-member. According to the rules of the Chamber, for the completion of Teji-Mandi contracts between member and non-member, the member has the right on the day of declaration of contract to declare the contracts according to the instruction of the non-member and in the absence of any such instructions according to the conditions of the price and at his own discretion, and prepare the contract which is officially used and send it to the non-member to be duly signed by him. The non-member has to sign the acknowledgment and return the contract duly signed within two days of the receipt of the contract. Even if he does not do so, all the terms of the said contract are taken to apply to the non-member and the responsibility for giving and taking delivery of the goods under these bye-laws rests on the member and the non-member in the same way as in the case of ordinary selling and buying contracts.

Chamber's Clearing House :

In 1940, the Marwadi Chamber of Commerce started a Clearing House for clearing fortnightly trade payments. The office of the Chamber calls for bills of accounts of each party and then asks each

individual party to pay or receive the amount due by or to them.

Under no circumstances have the members the right to pay or to receive between themselves the difference directly as under :—

(1) The difference of the open contracts,

(2) The difference of the liquidated contracts,

(3) The difference between the contract prices and the Delivery Order prices of the transactions for which Delivery Order prices of the transactions for which Delivery Orders have been issued.

(4) In the case of business effected on the due date[2] the difference between the price of those contracts effected upto 1 o'clock and the due date rate.[3] The difference for contracts remaining unliquidated at the previous clearing to be paid or received as per the margin between the previous clearing rate and the due date rate.

(5) If the delivery of goods against sale contracts has not been effected according to the rules in such cases, the seller has to pay a penalty of 2 annas per Cwt. for failure to tender the goods.

(6) The difference of the open Teji-Mandi contracts, and the settlement rates.

(7) The difference between the liquidated Teji-Mandi contracts.

(8) The payment of the Premium of the Teji-Mandi contracts.

(9) The payment of brokerage of sales and purchases and Teji-

2. Due Date :—The last date for the giving and taking delivery for a particular delivery period in accordance with the contracts which are as follows, except for those contracts effected for a special delivery period.

Period.	*Due Date.*
May	31st May
July	31st July
September	30th September
November	30th November
January	28th or 29th February as the case may be.
March	31st March.

But if on any of the dates fixed by the Chamber is closed or even on the preceding day or days the Chamber is closed then the *previous day* to such Holiday or holidays shall be considered as the due date.

3. That Ready Bazar Rate which shall be fixed through the Board on the due date.

Mandi Contracts under these bye-laws. The settlement of the difference of such contracts only that have been effected upto the day of fixing of the settlement rates. The settlement of difference of the contracts made thereafter to be made along with the next fortnightly settlement.

When the Board meets to fix the settlement rate it also fixes the settlement day. The settlement rates are fixed by the Board after 3 o'clock on the 15th and the last day of every month.

Excepting holidays and in cases when the Board decides otherwise the Clearing House works between 10-30 A.M. to 6 P.M. But when found necessary on the orders of the Clearing House Committee which is appointed to look after the Clearing House work or in the absence of quorum by the order of the Chairman, the Clearing House works on holidays also. The forms prepared by the Board alone are to be used in the work of the Clearing Houses, delivery orders and notices. The disputes between any two members of the Clearing House are settled by the Board and the decision is binding upon the parties. But a right to appeal may be exercised within three days of the decision, the application for appeal to be accompanied by a fee of Rs. 25. At the time of the decision on the appeal the Board decides also the party to be responsible for fees already paid.

A dispute arising between two members regarding the settlement or payment of differences is decided by the Clearing House Committee and appeal on the decision of this Committee is placed before the Board whose verdict is final. In the case of this appeal also a fee of Rs. 25 has to be paid.

The Clearing House has the right after due inqury to punish a member who fails to compare the accounts, commits mistakes in doing so, or refuses to accept the clearing house sheet. The Clearing House Committee has the right to get the settlement made by arbitration. Intimation whereof may be forwarded to the parties concerned. The said Committee has also the powers to ask any debtor to make part payment before the final decision is made and may also ask any of the parties to place their cases before the Board. In cases where the issue at settlement is expected to take much time and a great deal of deliberation, the Committee charges Rs. 100 as fees from the party desiring settlement which is distributed equally amongst the members of the Committee present. In case of failure to obey the rules and regulations of the Clearing House, the Clearing

House Committee or any sub-committee appointed by it has the powers to fine the defaulting party to the extent of Rs. 50.

Settlement :

The Clearing House enables the members to settle their transactions conveniently, and it creates confidence amongst the members. The fixing of the settlement rate is a responsible job and as such special attention is paid when rates are fixed. Similarly, the task assigned to the Clearing House Committee in respect of settlement is also framed.

Machinery for settling disputes :

Disputes and differences of a variety of character are common to all markets, and the Bombay Grain and Oilseeds market is no exception to them.

The Chamber like other Associations have classified these disputes and have devised machinery to settle them amicably with the least cost possible. For instance, disputes relating to weight, bagging, quality and refraction in oilseeds are treated by a special machinery called "Survey System" while all other disputes of a miscellaneous character are handled by a separate machinery, provided for the purpose, viz., "Arbitration."

If the members do not come to an agreement between themselves the rules of Chamber allow them to appoint two surveyors, to arbitrate on any of the matters such as weight, refraction, quality and bagging, etc., that may be under dispute. One of them is appointed by the seller and the other by the purchaser of goods. The parties to the transaction inform the Chamber of the surveyors respectively appointed by them and send the sealed sample at the office of the Chamber for survey. The Chamber informs the surveyors of their appointment and requests them to proceed with the survey early, as they are required to come to a decision and submit their report within three weeks from the last day of appointment.

If the surveyors fail to give unanimous report, they jointly have the right of appointing an Umpire. The decision of the Surveyors or the Umpire is final and is binding on both the parties, unless an appeal is made.

Persons eligible to be Surveyors : The Board prepares and publishes a list of surveyors to survey wheat and other oilseeds in which members and non-members are included. The Board changes this list from time to time. The Surveyors or the Umpire have to hold

a survey on weight, refraction, quality, bagging, etc. The surveyors are not connected or in any way concerned with the goods and are not personally interested in the subject matter of survey.

Survey Fees : The buyer and the seller have both to pay Rs. 10 each as survey fees for every 25 tons which has to be sent to the Chamber along with the letter appointing the Surveyors. In this way Rs. 20 are received for every lot, out of which Rs. 8 are credited to the Chamber's fund, the balance Rs. 12 is divided equally between the two surveyors. If the umpire is appointed by the surveyor he is paid Rs. 6 for every 25 tons and the two surveyors receive Rs. 3 each.

Place of Survey :The survey for quality, refraction, bagging and clearing charges of goods is held at the office of the Chamber but the survey for weight is held in the godown of the seller in case of Groundnuts and in the godown of the last buyer in the case of wheat and linseed.

Survey Appeal :The appeal against the survey report published by the surveyors or Umpire lies with the Survey Appeal Committee. This Committee consists of at least five members. The Survey Committee has the right to give their decision on the basis of the goods cleaned through the Surveyors or the Umpire or to open a second tin of the lot concerned and after getting it surveyed to give their decision. This Committee has also the right to suspend, cancel, alter or examine the reports of the surveyors or the Umpire. The report given in this manner by this Committee is final. The appeal fees are Rs. 25 per lot of 25 tons. Of these fees collected Rs. 10 for every lot are credited to the funds of the Chamber and the remaining amount of Rs. 15 is equally divided among members of the Survey Appeal Committee.

The method of drawing samples by Surveyors : The method of drawing samples of this Association is different from other Associations, in this respect that the samples are drawn out by scoops and not by hand. In the scoop method uniformity is preserved and variations are minimised. By the hand method there is the possibility of injustice being done to the party whose *Bamboowala* is not an expert in this direction. In regard to other respects the sampling method of the Chamber is similar to that of the Grain Merchants' Association and the Seeds Traders' Association. Under the rules of the Chamber ten sample bags are selected and arranged alternately

in a vertical and horizontal manner. The skill of the surveyors depend in all the trade bodies in the selection of the sample bags and the instructions they give to the *Bamboowala* in drawing of samples.

Arbitration : Besides the method of survey for determination of refraction, quality etc., there is also the method of arbitration by which disputes relating to matters of transactions, *hundis*, accounts, deposits and shroff business are settled. Each party to a dispute shall appoint an arbitrator who shall be an ordinary member and who has no connection or interest in the dispute or the subject matter under reference. Both the parties have to send appointment letters to the arbitrators concerned. The report of the arbitrators between two parties who are members shall be submitted within twenty-one days and between a member and a non-member within thirty days. At the time of giving the report the arbitrators fix the fees as also state the party or parties who shall bear the expense of the fees. The arbitrators' fees are Rs. 30 minimum and Rs. 100 maximum according to the decision of the arbitrators. One-fifth of this fee is credited to the general fund of the Chamber and the remaining is divided equally between the two arbitrators, or in case an umpire is appointed half the balance is paid to the Umpire and the remaining half divided amongst the two arbitrators. In case of non-acceptance of the decision of the arbitrators an appeal is made within ten days, if the parties are resident in Bombay and within fifteen days if residing outside Bombay. The fees for an appeal is Rs. 50. However, in case of difference of opinions amongst arbitrators an Umpire is appointed by them as in survey. The Umpire is to give his report within fifteen days of his appointment. The Board of Chamber also has the right to appoint arbitrators or an umpire in case any of the parties does not appoint his arbitrators, or if the arbitrators fail to give their report. In the matter of a dispute between Associate members arbitrators are selected from the Ordinary or Associate members or their representatives. If the dispute is between Ordinary members or an Ordinary or an Associate member or between members and non-members only, Ordinary members are selected as Arbitrators. An Umpire is chosen from the ordinary members only. Moreover, an Arbitration Committee is also appointed by the Chamber consisting of five members which decides disputes regarding rules and regulations of *Hundis*, interest, commission and matters in wheat and oilseeds upto an amount of Rs. 50. The quorum of this committee shall be three and duration of office will

be decided by the Board. An appeal on the decision of this committee can be made, on payment of Rs. 10 within five days of the decision. The decision of the Board in this appeal shall be final.

Futures Contracts settled by actual delivery ? We give below the quantities of linseed and wheat actually delivered in settlement of outstanding futures contracts.

"Futures" contracts settled by actual delivery at the Marwadi Chamber of Commerce, Bombay.

(Tons).

		Wheat	Linseed
September	1939	20,628	8,652
January	1940	10,507	..
May	1940	1,855	6,024
Total	(1939-40)	32,990	14,676
September	1940	3,820	12,454
January	1941	12,013	...
May	1941	4,535	4,922
Total	(1940-41)	20,168	17,376

The above figures relate to the quantity actually delivered in the respective settlement periods. The transactions on the exchange in course of the settlement period squared up at fortnightly or monthly clearings and those kept outstanding and cleared in the last month of the settlement are much larger than indicated by the above figures. As the said transactions of sales and purchases are squared up one against the other, delivery in respect thereof is not actually made. The figures of actual delivery given above does not point to the volume of hedge business nor can they in any way give an idea of the volume of speculative, Teji-Mandi or genuine open trading done on the exchange. The figures simply signify that so much goods were tendered in delivery. If the demand for a particular commodity is more or is expected to be more in the future a larger quantity of goods is tendered generally at the end of the settlement. This, however, also happens to be the case when the stockists feeling that the

market conditions are likely to remain stationary and the prices are not likely to go up, endeavour to dispose of the large stocks lying with them for which sales at higher rates were made by them during the settlement period. Therefore, the goods actually delivered depend upon the general conditions of trading at the end of the settlement period.

Significance of certain rules and regulations :—

The rules and regulations of the Marwadi Chamber of Commerce are more systematic and detailed as compared to those of the Grain Merchants' Association and the Seeds Traders' Association. The latter two bodies have as yet not reduced to writing most of the rules and customs of the trade that are prevailing. In the case of the Seeds Traders' Association the rules relating to the exchange are framed adequately and detailed bye-laws are under preparation. As the business of the Seeds Traders' Association and the Marwadi Chamber of Commerce is conducted on the lines of an exchange and a large business for non-members is also done rules and regulations require to be detailed and exact so as to create confidence in the working of the exchange.

The distinguishing features of the rules of the Chamber are in respect of the method of arbitration, survey and the clearing house. As pointed out earlier, an Arbitration Committee is also appointed and the members are also allowed to appoint arbitrators. The rules regarding survey are well-framed and detailed rules are given regarding weighment, sampling, etc. The method of sampling differs from that of the Grain Merchants' Association wherein the scope method is adopted by the Chamber. This method brings about exactness and manipulations by persons drawing the samples are avoided.

In respect of the clearing system, rules of the Chamber are exhaustive and every settlement is made through the clearing house. This method helps to bring about confidence in the working of the Chamber and the Chamber is recognised as an authority for final settlement of the disputes.

Besides these distinctive features there are rules made for tendering Railway Receipts, goods for weighment and for the methods of business. But these rules are more or less similar to the rules of the other trade bodies, with minor modifications.

The Chamber like the Seeds Traders' Association keeps a record of the daily rates in wheat and linseed and—publishes them in the

press for general information. As in the case of the Seeds Traders' Association the Chamber also does not publish reports periodically which give information regarding the trade and business conditions in Bombay. Regarding statistical information the Chamber like the Grain Merchants' Association maintains a library wherein Government publications and foreign periodicals are kept for reference purposes. From these publications separate figures indicating the production aspect, the distribution aspect and the trade aspect of the particular commodities are not compiled by the Chamber and this work is mostly done by the individual members according to their business requirements.

Conclusion :

This completes our survey of the organisation and working of the three Associations which collectively comprise the grain and seeds trade in Bombay. For purposes of a clearer understanding an attempt is made to bring together in the next chapter the outstanding points of similarity and contrast as between these Associations.

APPENDIX TO CHAPTER VI

A. *Bye-laws Regarding Tenders.*

46. *Validity of Tenders.*

All transactions for forward delivery of Wheat and Oilseeds are understood to be subject to these rules. For the completion of a contract the buyer will always be bound to take delivery of the goods if tendered by the seller in accordance with these rules.

47. *Tender of delivery Order or Railway Receipt.*

(A) All grains and oilseeds for forward delivery excepting Groundnuts, if made under these rules, may be fulfilled by the tender of Railway Receipts or delivery Orders and both will be considered valid Tenders. But under no circumstances will a Railway Receipt be accepted if tendered on the due date. In all the Contracts the terms will be considered. as Railway delivery.

(B) Groundnuts Contracts, under these bye-laws, shall be made on bazar terms conditions and the buyer shall take delivery of the goods from the seller's godown. The weighment of the goods and drawing of samples for survey will all be done in the seller's godown and gunny bags will be included in the Weight of the goods (i.e. payment will be on the *gross* weight).

Railway Receipts will not be accepted in Groundnut Contracts.

Tenders to be made through the Clearing House only.

48. If under these rules there have been transactions between members, and for their completion tenders are made all delivery Orders and Railway Receipts of such goods shall be tendered through the Clearing House only.

Issue of Delivery Orders.

49. The first seller can issue delivery Orders only when the goods are ready in his (the first seller's), his muccadum's and/or his Constituent's godown within the limits of the Bombay Municipality. Unless the goods are ready, the first seller cannot issue delivery Orders.

Issue of Receiving Orders.

50. After the presentation of Delivery Orders for Grains and Oilseeds except Groundnuts to the parties according to rule 120, the Delivery Order eventually reaches the last buyer. It shall be the duty of the last buyer to present the receiving order to the first seller, at least 1 day (between 10 A.M. and 6 P.M.) before the due date entered by the Clearing House. It shall be the duty of the first seller to send the goods of the delivery order before 6 P.M. to the godown of the last buyer, the next day after the presentation of the Receiving Order. But if on any

one day more than 300 tons are to be delivered and received the Clearing House has the authority to extend the time according to the circumstances if an application to that effect is received from the buyer or the seller.

50. (A) If the address of the godown of the last buyer is outside the limits of the Bombay Municipality, the seller has the right to refuse to send the goods to such a godown.

In such a case if the last buyer is not prepared to have a godown within the limits of the Bombay Municipality on the same day the seller will have the right to act as explained in Bye-law No. 51.

Seller's right if Receiving Order is not sent.

51. If as per Rule No. 50, the last buyer fails to send the receiving order then after the final date for taking delivery has expired the first seller will be entitled to close the said Contract on the last buyer's account, risk and cost on the next day at the ready bazar rates and if the final delivery date falls on the due date or after the due date, to liquidate the Contract on the due date rate or to sell the goods of the Delivery Order in the bazar or by public auction. The first seller has to give notice of this to the last buyer and to the Chamber on the same day.

Seller's right if delivery not taken by last buyer.

52. If as per Rule No. 50 the last buyer sends the receiving order to the first seller and the first seller sends the goods of the Delivery Order to the godown of the last buyer it shall be the duty of the last buyer to unload the goods. If for any reasons the last buyer does not take the delivery of the goods the first seller has the right to sell the goods of the Delivery Order the next day in the Market at the price for ready goods at the account, risk and cost of the last buyer, or to liquidate the Contract at the due date rate if the delivery falls on the due date or thereafter, or to sell the goods in the Market or to auction it publicly. Notice of such steps will have to be given to the Chamber and the last buyer on the same day.

Non-acceptance of Receiving Orders by the first seller or failure to tender the goods.

53. According to Bye-law No. 50 if the first seller refuses to accept the receiving order sent by the last buyer or after accepting the receiving order fails to send the goods of the delivery order to the godown of the last buyer by 6 P.M. the next day, in both the cases the last buyer has the right to buy the goods in the ready Market the next day on the first seller's account, risk and cost or to liquidate the Contract at the due date rate if the delivery falls on the due date or thereafter or to buy in the Market. Intimation of this will have to be given to the Chamber and to the first seller, on the same day by the last buyer.

The buyer will receive 2 annas per cwt. penalty on account of the seller not having tendered the goods and both parties will settle between themselves the difference between the rate of the delivery order and the bazar rate of ready goods.

(A) As per Rule 30, if the goods tendered are less than 480 Cwts. for each tender, the last buyer has the right to buy the difference between the weight of the goods tendered and 500 Cwts. on account, risk and cost of the first seller in the bazar of the next day of such tenders or to receive the difference in rate of the quantity tendered and the 500 Cwts. at the ready market rate ruling on the day the delivery was given or at the due date rate if delivery is made on the due date or thereafter or to reject the goods. In the case of the goods being rejected, the buyer may liquidate the Contract at the ready bazar rate or on the due date rate if rejected on the due date or thereafter. In such a case the last buyer will receive a penalty at 2 annas per Cwt. from the first buyer. The last buyer shall inform the first seller and the Chamber, his decision to refuse to accept the tender.

It shall be the duty of the first seller to receive the goods within 7 days of the receipt of the intimation from the godown of the last buyer and to pay the last buyer the account, interest and expense as follows :—

(1) To refund the 90% of the value (if he has received it).

(2) To pay interest at 8 annas per cent. per month on the 90% upto the date of refund.

(3) Muccadumage at 3 annas per bag.

(4) Insurance premium at 8 annas per 100 bags.

(5) Cartage according to bye-law No. 104.

(B) If the goods delivered through the first seller be more than 520 Cwts. for each tender, the last buyer has the right to refuse to accept more than the required quantity or if delivery has been taken to return back the excess over 520 Cwts. If he decides to return the excess over 520 Cwts., he shall inform the buyer within 3 days of Weighment and on receipt of such intimation, it shall be the duty of the first seller to receive the excess from the godown of the last buyer and also to pay him Muccadumage at 3 annas per bag on the excess quantity. If the first seller fails to remove the excess goods, the last buyer has the right to sell the goods, whenever he likes at the risk, account and responsibility of the first seller after giving 24 hours' notice of his intention to do so both to the first seller and the Chamber.

(C) If the last buyer, decided upon as per rule No. 120, doubts that the delivery order he received is in accordance with bye-law No. 49 inasmuch that on the day of the issue of the delivery order there were not sufficient goods in the godown of the first seller, or, if the first seller on receipt of the Receiving Order failed to send the goods, of the delivery order to the godown of the last buyer as per rule 50 or in the case of Groundnuts he failed to keep the goods ready in his godown as per rule No. 64(A) the last buyer has the right to request the Clearing House Committee to take action as per rule No. 101.

(D) If the last buyer even in spite of his doubts as explained above sends the receiving order and the first seller sends the goods to the last buyer or keeps the goods ready in his godown, in the case of Groundnuts,

the last buyer has to make an application to the Clearing House Committee to take action as per rule No. 101(A).

54. *90% Advance against Delivery Order.*

The first seller has the right to receive at his godown, from the last buyer, the 90% value of the goods at the time of giving delivery, (Contract or Settlement rate as the case may be), but if the seller at that time does not take the 90% advance then it should not be understood that he gave the goods on credit to the last buyer, and so long as the first seller does not receive 90% of the value he will have full right over the goods, but if within that time the goods are burnt, stolen, or damaged in any way then all responsibility will rest on the final buyers.

55. *Buyer's duty when the first seller does not receive 90% advance.*

If the first seller does not demand the above 90% at the time of delivering the goods then it is the duty of the last buyer to give the receipt for the delivery of the goods to the seller at the time. On giving this receipt the seller on the same day (the day on which the goods have been delivered) can demand from the buyer payment of 90%, at any time up to 6 P.M. and the buyer must pay 90% ; if the buyer fails to pay 90% on receipt of an intimation the board will take action against him as per bye-law No. 8.

56. *Rules for Tendering Railway Receipts.*

If any seller according to Contracts made under these rules tenders a Railway Receipt and if the Railway Receipt fulfils the conditions given below then the last buyer will be bound to accept the Railway Receipt :—

(A) If the date of the Railway Receipt is less than 10 days of the due date then such a Railway Receipt will not be accepted.

(B) The weight of the goods in the Railway Receipts should be between 480 to 520 Cwts.

(C) For a transaction of 500 Cwts. one Railway Receipt of 500 Cwts. should be tendered and if the transactions amount to more than 500 Cwts. the number of Railway Receipts tendered should be at the rate of 1 receipt per 500 Cwts.

(D) If the Railway Receipts tendered are for Wheat, then as described in rule No. 33, the Railway Receipts must be of the Stations of the provinces which are shown therein.

57. *Responsibility for demurrage in Railway Receipt.*

For every Railway Receipt tendered the responsibility for demurrage or wharfage as the case may be is on the first seller till one day after the last buyer is notified. Thereafter the last buyer will be responsible for demurrage or wharfage as the case may be.

58. If an intimation of a Railway Receipt to be tendered has been received on any day by the last buyer under bye-law No. 120, he shall, the next day pay for the weight of the goods mentioned in the receipt,

including bagging at 90% of the delivery order price and take possession of the Railway Receipt.

To arrive at the 90% value the 10% value will be deducted first and then the amount of freight against Railway Receipt.

59. *Non Payment of 90% value against Railway Receipt.*

If the last buyer, in accordance with bye-law No. 58, does not pay the 90% and take the Railway Receipt from the seller then he will be bound to take the Railway Receipt on the 3rd day (excluding Railway holidays) of the receiving of the intimation and pay the 90% with interest at 8 annas per cent. per month for one day. If within that period also the last buyer does not take the Railway Receipt then on the fourth day, the first seller has the right to sell the goods of the Railway Receipt by public auction on the account, risk and expense of the last buyer to sell the Railway Receipt in the open ready bazar. Intimation of this will have to be given on the same day to the Chamber and the last buyer by the first seller. The last buyer will have to make good the loss sustained by the first seller, as a result of the auction or sale and pay the amount the next day. If he does not do so and on receipt of the intimation the board will proceed to take action against him under rule 8, on receipt of an application from the first seller.

Example. If the intimation of the Clearing House is received on 1st January then upto 6 o'clock on the evening of the 2nd January the last buyer has to take the Railway Receipt. If he does not do so then on 3rd January he must take delivery of the Railway Receipt on payment of 90% and interest for 1 day at 8 annas per cent. per month. If on the 3rd January also the last buyer does not take the Railway Receipt then on the 4th January the first seller will have the right to sell the Railway Receipt or goods thereunder or sell by public auction.

60. *First Seller not parting with the Railway Receipt to Buyer.*

If the last buyer according to these rules goes to the first seller with 90% of the value of the Railway Receipt and demands the Railway Receipt from the first seller and the first seller does not give the Railway Receipt then the last buyer will have the right to buy the goods of the Contract in the open ready market on the 2nd day, on account of and at the risk and expense of all the parties concerned to settle the Contract at the ready bazar price. It shall be the duty of the last buyer to give notice of his action to the Chamber and to the first seller. For reasons of failure to tender the goods the last buyer shall receive from the first seller a penalty at the rate of 2 annas per Cwt. and also shall settle mutually the difference between the delivery order price and the ready bazar price.

61. *Responsibilities of the intermediate parties should the Railway Company not give delivery of the goods and the first seller becomes a a defaulter.*

(A) If the last buyer by paying 90% takes possession of the Rail-

way Receipt but the Railway Authorities, for any reason whatsoever refuse to deliver the goods of that Railway Receipt to the last buyer and in the meanwhile the first seller becomes insolvent or a defaulter and thereby has not been able to refund the 90% value he has received, the next party to the first seller will be responsible to pay the amount. Even if this party also fails to pay, the next party will be responsible. In the same way the responsibility will rest on all the other intermediate parties in rotation. On payment of the amount having been made, it shall be the duty of the last buyer to hand over the Railway Receipt to the party that pays the amount. The said party will have full right over the Railway Receipt and the goods covered by it.

Under these circumstances all the intermediate parties will be responsible for the 90% value of the goods until such time as the last buyer gets possession of the goods. On the goods coming to the possession of the last buyer or his agent the intermediate parties are released of all the responsibilities.

(B) *Rights of last buyer if the goods of the Railway Receipt are not unloaded by the due date and the first seller becomes a Defaulter.*

If by the due date, the goods under any Railway Receipt are not unloaded at the Railway Station and the first seller has received payment of the 90% value from the last buyer and becomes a defaulter, or a petition to declare him insolvent has been filed before he has refunded the amount to the last buyer, the last buyer has the right to sell the Railway Receipt through any member in the open ready bazar or to sell it by public auction. From the amount collected in this way, the last buyer shall recover his 90% and if there is any balance to credit it to the accounts of the first seller. The member buying the Railway Receipt will have complete rights over the goods of the Railway Receipt.

(C) *Responsibilities of the intermediate parties in regard to the payment of 90% in the event of the last buyer becoming a defaulter.*

As per rule No. 59, if the Railway Receipt or its goods have been sold or auctioned and the last buyer is declared a defaulter as a result of his not paying the difference in time, the next nearest buyer has to pay the difference to the first seller. If this party also is declared a defaulter for non-payment or a petition in the insolvency court has been filed the next nearest buyer has to pay and so on, all the other intermediate parties in rotation will be responsible for the payment.

62. *Goods under Railway Receipt tendered not unloaded by the due date.*

If the goods under any Railway Receipt tendered, do not arrive in Bombay upto the due date of the Contract and the last buyer obtains from the Railway authorities a remark on the Railway Receipt that the goods are not unloaded, member will have the right to return the Railway Receipt to the first seller after 4 o'clock on the due date and on account of and at the risk and expense of the seller to settle his contract at the due date rate or buy the goods in the ready bazar on the first seller's account. The last buyer has to give notice of this to the Chamber. A

penalty at 2 annas per Cwt. for not tendering the goods will also be charged by the last buyer, and both parties will mutually settle the differences between the Delivery Order price and the bazar rate for ready goods. It will be the duty of the first seller to return to the last buyer the 90% value of the goods received by him from the last buyer together with interest at 8 annas per cent. per month.

63. *Rights of Parties if the goods under the Railway Receipt are not fully unloaded.*

If 5% of the goods under any Railway Receipt tendered is not unloaded up to 4 o'clock on the due date but 95% of the goods have been unloaded, it shall be the duty of the last buyer to take delivery of the goods unloaded. But if less than 95% of the goods have been unloaded, the last buyer shall give written notice of the same to the first seller and also the Chamber before 6 P.M. In such a case he has the right to refuse to take delivery of the goods, and after getting the quantity unloaded noted on the Railway Receipt, by an official of the Railway Company to return the Railway Receipt to the first buyer the same day upto 6 o'clock or before 12 noon the next day and get the refund of the 90% paid by him to the first seller and settle his Contract at the due date rate. Intimation of this has to be given to the Chamber and the first seller. If he takes delivery of the goods he has no right to reject them thereafter. He can buy the difference of the undelivered quantity in the ready market. But if the last buyer does not buy the remaining goods in the market by 6 o'clock in the evening the next day, his contract to that extent will be settled at the due date rate.

(A) *Claiming of Allowance for goods damaged in Railway Wagons.*

In the event of goods under a Railway Receipt tendered against a Contract under the rules of the Chamber, are found to be damaged either slightly or heavily before they are taken delivery of from the Railway the purchaser of the Railway Receipt has the right to claim damages from the Railway Company or to deduct the value of the damage assessed from the 10% value of the goods at the time of payment. If the claim is deducted from the 10% balance the buyer has to give the seller a letter of authority along with the assessment report or bill part addressed to the officials of the Railway Company, so that the claim due may be recovered by him from the Railway. The first seller has to receive the 10% balance after deducting the amount of the damage assessed which he has to recover from the Railway Company.

64. *Sale of a Railway Receipt on account of the first seller if he refuses to accept its return.*

If a Railway Receipt is returned by the last buyer in accordance with these rules because the goods have not been unloaded but the first seller refuses to accept it then the buyer will have the right to sell in the bazar such Railway Receipt on account of and at the risk and expense of the

first seller and deduct his expense and 90% value with interest as described below :

1. Brokerage for selling the Railway Receipt ¼%.
2. 90% of the value of the goods.
3. Interest at 6 annas per cent. per month from the day of receiving the Railway Receipt to the day of selling it.

RULES REGARDING GROUNDNUT DELIVERIES

64. (A) When a Groundnut Delivery Order is sent in accordance with rule 120 to the last buyer after having been noted by the intermediate parties it shall be the duty of the last buyer to inform the first seller, in writing at least by 6 o'clock of the day before the last date for taking delivery, in which he shall state definitely the time at which he desires delivery. At the appointed time after the goods have been weighed in the godown of the first seller and the 10% sample bags kept aside he should take delivery of all the remaining bags. If any definite intimation of the time taking delivery of the goods has not been received it shall be understood that the last buyer shall positively take delivery of the goods on the last date. If due to any reasons the last buyer has not been able to give such intimation within the above stipulated time and if by 12 o'clock of the last delivery date he shows the Delivery Order to the first seller, then the same day by 6 o'clock the first seller has to give delivery of goods. But if for any of the above reasons or if in a day more than 200 tons are to be delivered or taken delivery of, the seller or the buyer may apply to the Clearing House Committee for extending the time and the Clearing House Committee has the authority to extend the time according to circumstances.

(B) If the last buyer fails to intimate in writing to the first seller regarding taking delivery or to present the Delivery Order before 12 o'clock in the noon, as per rule No. 64(A), the first seller has the right to settle his Contract at the next day's ready market rate or if the delivery date falls on the due date or after the due date at the due date rate or to sell the goods of the Delivery Order in the ready bazar at the cost, risk and expense of the last buyer. The first seller has to inform the Chamber and the last buyer of his intention the same day or the next day by 12 o'clock in the noon. If the goods are to be sold in the bazar and if intimation is not given then such a sale will not be considered as on account of the last buyer.

(C) *Weighment and Sampling in Groundnuts.*

As per rule 64(A) if the last buyer goes to take delivery of Groundnuts, there in the first instance all the bags will have to be weighed and thereafter at the suggestions of the last buyer 10% full bags will be set aside for the purposes of deciding refraction, quality, bagging, etc. Until the samples are drawn these bags set aside under rule 64(A) will remain in the possession of the first seller. The 50% payment may be demanded immediately as stated in bye-law No. 34, or the buyer should send the payment to the seller before 6 o'clock in the evening of the

same day. The 10% sample bags will have to be taken delivery of on the day after the sample is drawn as per rule No. 69. The payment of 90% against these bags will be made by the last buyer according to rules No. 54 and 55.

(D) *Rights of the Seller in the case of delivery of Groundnuts not being taken by the Buyer.*

If, as per rule No. 64, intimation has been given in writing or the Delivery Order has been presented before 12 o'clock on the last date and the first seller keeps the goods ready in his godown but the buyer for any reason fails to take delivery the seller has the right to sell the goods the next day in the ready bazar, on account of and at the risk and expense of the buyer or if the delivery date falls on the due date or after the due date to settle the Contract at the due date rate or to sell the said goods in the market.

Any of the two actions that may be taken, shall be intimated to the Chamber and to the buyer, either on the same day or by 12 o'clock noon the next day. If notice of the sale of the goods is not given in due time, the sale will not be considered as made on account of the last buyer.

(E) *Buyer's rights if the Seller does not deliver Groundnuts.*

In the event of the first seller doing any of the following :—

1. refuse to accept the intimation sent to him under rule No. 64(A);
2. after receiving intimation does not give delivery within the time limit;
3. if the goods are not delivered even after delivery Order has been presented within the time limit on the last date of taking delivery;

the last buyer on account of and at the risk and expense of the seller has the right to settle the Contract in the next day's ready bazar price or if the next day falls on the due date or thereafter at the due date rate or to buy the goods of the Contract in the open ready bazar. The last buyer has to notify the seller and the Chamber of what he has done on the same day or before 12 o'clock noon the next day. In such a case the last buyer, for failure to tender the goods by the seller, shall receive a penalty at 2 annas per Cwt. and both the parties will pay and receive the difference between the Delivery Order price and the price of the ready bazar or due date rate whichever be the case. If the last buyer does not give notice of buying the goods in the bazar, such a purchase will not be considered as having been made on account of the seller.

64(F) *Buyer's right if short weight is tendered.*

If the goods (Groundnuts) tendered according to rule 6 A are less than 490 Cwts. the buyer has the right to take delivery of the goods and buy or settle the difference between the tendered weight and 25 tons at that day's ready market rate or due date rate if the delivery is given on the due date or after or if necessary he may refuse to take delivery and in the case of refusal he has the right to settle the Contract at the next day's bazar rate or if the said date falls on the due date or

thereafter at the due date rate. In such circumstances the last buyer shall receive a penalty at 2 annas per Cwt. from the first seller.

Intimation of settling the Contracts as said above shall be given by the buyer to the Chamber and the first seller either on the same day or by 12 noon the next day.

As per rule 64(A) if the goods (Groundnuts) tendered be more than 505 Cwts. the last buyer has the right to reject the excess goods.

65. *Responsibilities of the intermediate Parties regarding the 90% payment.*

If the first seller delivers the Railway Receipt or the Delivery Order without receiving 90% payment and the last buyer stops payment or becomes a defaulter or insolvent, in these circumstances any of the middle parties will not be responsible for the 90% after the goods of the Delivery Order of the Railway Receipt have been delivered.

CHAPTER VII

THE THREE EXCHANGES—A COMPARATIVE STUDY

WE shall now attempt a comparative study of the three exchanges studied above. First we shall deal with the similar and dissimilar aspects of these exchanges. We shall then examine the inter-relationship of these exchanges and see whether they are 'complimentary or competitive. In the end we shall compare them with the other trade Associations in India and abroad.

Similar and dissimilar aspects of the Associations :

Aims and objects.—Notwithstanding the fact that the aims and objects of the Grain Merchants' Association, the Seeds Traders' Association and the Marwadi Chamber of Commerce appear to be similar on the whole, the Grain Merchants' Association devotes more attention to genuine trading wherein goods are delivered to retailers, millers, exporters, etc. Accordingly the rules framed by this Association are based on this aspect of trade and the necessary technical details have been incorporated into the rules. The Seeds Traders' Association is more concerned with futures trade in groundnuts, castorseeds and cottonseeds, hence its forms of trading are different from those of the Grain Merchants' Association. The Marwadi Chamber of Commerce is concerned with ready and futures trade in wheat and linseed, and also with *hundi* and Sharafi business. Further some of the members of the Marwadi Chamber of Commerce are interested in other commercial and industrial pursuits, and so the Chamber makes efforts also to safeguard the interests of those members in such trades and industries e.g. textiles. Like the other two Associations, the Chamber also functions like a Chamber of Commerce, like a Trade Association, and like an Exchange.

Registration.—As regards registration, we have mentioned that the Seeds Traders' Association and the Marwadi Chamber of Commerce are registered under Section 26 of the Indian Companies Act, while the Grain Merchants' Association is an unregistered body. As the Grain Merchants' Association is an unregistered body it goes on changing its rules and bye-laws as and when necessary, while with the registered bodies there is a definite procedure prescribed.

While it is true that an Association may work well even in the absence of registration, the existence of an unregistered body in modern times is an anomaly which deserves to be rectified in the interests of the trade as well as the public at large.

Membership.—The dissimilarity in rules regarding membership follows from the particular types of trading respectively controlled by the three trade bodies. The Grain Merchants' Association has ordinary and associate members, and as the Association chiefly attends to ready trade the qualification for ordinary membership is based on charity cess on actual sale and delivery of 8000 bags per year. The brokers in this Association are not admitted as members because the members who are merchants remain the principal parties to transactions and the brokers are only a connecting link. In this Association the class of brokers is treated as a subordinate one. Further, along with members and brokers there are *Muccadams* and *Bamboowalas* to whom also a certificate is granted by the Association in order that there may not arise any misunderstanding or error in making any transactions, settlement, etc., through them.

In the Seeds Traders' Association there does not exist any classification of membership. Merchants as well as brokers are admitted as members on payment of prescribed fees. Merchant members are those who are interested in genuine trade i.e. stocking goods and giving delivery of them whereas the broker members take the cards and do business on behalf of others—merchant members as well as non-members on brokerage. In this Association the status of the broker is mostly on a par with those of the merchants because the brokers also are financially strong parties; they bear complete responsibility for the transactions made through them, and they are, in fact, the chief operators in the market. Business in this Association is done in the ring and is of the futures type.

In the Marwadi Chamber of Commerce there are two classes of members; ordinary and associate. The chief difference between an ordinary and associate member is that an ordinary member can be appointed as a director and is also entitled to be present and vote at the general meetings of the Chamber. An associate member is not entitled to be appointed as a director, or to vote in the election of a director. Ordinary members of this Association are classed into four electoral panels: (1) Shroffs, (2) Commission Agents, (3) Brokers, and (4) Muccadams. There is a third class of members

called special members who are admitted to the Chamber for some special service to the Chamber.

Transactions.—In the Grain Merchants' Association transactions are made on Bazar Terms or on Delivery Terms. The ready, forward and the settlement transactions are based on either of these terms, although business in ready transactions is done mainly on delivery terms, as we have already seen.

In the Seeds Traders' Association transactions are on Bazar terms only and the actual delivery of goods is made only at the end of the Waida. From month to month, till the Waida ends there are clearings by which payments of difference are made by the parties concerned. Accordingly, unlike in the case of the Grain Merchants' Association the question of handling actual goods does not arise in this Association from day to day but only on the completion of the Waida, and even then the goods actually delivered amount to only a small proportion of the total volume of transactions.

In the Marwadi Chamber of Commerce ready transactions (on Bazar terms or on Delivery terms) are also made but not to the extent as at the Grain Merchants' Association. Further, the futures transactions in groundnuts though not in operation are to be made on Bazar terms and those in linseed and wheat are made on Delivery terms. The question of delivery and actual handling of goods accordingly arises at the end of the Waida and till then clearing of payments of differences only is effected. This distinction in the types of transactions perhaps accounts for the rejection by the Grain Merchants' Association of the Standard Contract in wheat, linseed and groundnuts because the terms of the same were inconvenient for delivery of actual goods in some thousands of bags daily to millers, exporters, retailers, and others. The Seeds Traders' Association and the Marwadi Chamber of Commerce are concerned with futures transactions only most of which are squared up on payments of differences and only a small proportion remains wherein actual delivery is tendered. They, therefore, adopted the Standard Contract terms more readily. Only in regard to the quantity delivered at the end of the Waida the question of weighment, refraction, rejection, etc., would arise and as the tenderable quantities according to the futures contracts were made in accordance with the rules of the Standard Contract these difficulties are also overcome very easily. In the case of the Grain Merchants' Association the members deal with goods received from all over the country, and not from parti-

cular districts as in other Associations ; and hence the Standard Contract terms have not been found suitable for them in view of the differences in quality of the produce from different districts.

Clearing.—The method of clearing adopted by the Marwadi Chamber of Commerce is more highly developed than that of the Seeds Traders' Association. Here the transactions of the members are recorded and documents are submitted. In the Seeds Traders' Association clearing is made twice a month, while in the Grain Merchants' Association it is made once in the whole period of the Waida. The system of short period clearing at the Marwadi Chamber is adopted in order to meet uncertain trade conditions and the bigger volume of trading at this Association. Transactions of members are not recorded at the Seeds Traders' Association. This makes it difficult to estimate the exact volume of trading. The same is the case with the Grain Merchants' Association also. In the Grain Merchants' Association, as the settlement transactions are between members only and as no transactions of non-members are involved adjustments of accounts, etc., are made by the members among themselves and not through the clearing house. This Association maintains no clearing house, but the office of the Association undertakes to supervise the settlement of differences through the settlement committee, and issues and circulates delivery orders. The members of the Grain Merchants' Association do not feel the need of a clearing house. They consider the present system quite suitable to them as the transactions are between members and members. The defect in the Grain Merchants' Association clearing system is that the clearing takes place at the end of the Waida which is far too long. The present fortnightly settlement at the other two Associations is also inconvenient. Weekly settlement should be preferable and the institution of a weekly clearing house settlement should be introduced, as due to uncertain trade conditions, there are wide fluctuations in the market, and it might not be possible to know the commitments of the respective members without a proper system of recording. Besides it would be preferable for the Grain Merchants' Association to develop its system on the lines of the Marwadi Chamber of Commerce, so that the statements of accounts, etc., pass through the clearing house so as to create confidence in the trading in the ring.

Survey.—There is not much to be said regarding the systems of survey which, in each case, rest on a defined system of sampling. This consists in collecting in tins a fair sample of the goods of the

lot concerned by the hand method or the scoop method. The former is followed by the Grain Merchants' Association and the Seeds Traders' Association and the latter by the Marwadi Chamber of Commerce. The latter method does not allow any turning or twisting of the hand while drawing out the samples and is therefore preferable. In the samples drawn out by the hand, there may enter an arbitrary element because of the difference in the skill and experience of the persons drawing them. However, in ordinary cases, both the methods meet the purpose.

Mention may be made of the Grain Merchants' Association's method for ascertaining the driage content in case of groundnuts which in the months of November and December arrive in wet condition. After the contents of the sample tins are separated, analysis is made by weighment or scales according to the terms of the contract. The methods to deal with disputes arising out of survey are more or less the same in all the three exchanges.

Arbitration.—The Grain Merchants' Association being concerned with a large volume of trade from day to day wherein occasions arise for disputes, etc., has set up a committee, called the Arbitration Committee, which meets once every week to dispose of cases. The Marwadi Chamber of Commerce and the Seeds Traders' Association have not to deal with such a large number of cases. In the Seeds Traders' Association if disputes arise they are either decided by the Board or some members are appointed for the purpose of Arbitration. In the Marwadi Chamber of Commerce members are allowed to appoint arbitrators and at the same time for certain types of disputes an Arbitration Committee is also appointed. In all the three exchanges the parties concerned to a dispute, accept the decision of the committee or the arbitrators as the case may be. This system of deciding disputes by Arbitration is very useful as it ensures prompt decision based on business experience and technical knowledge which the law courts may not possess.

Inter-transactions on the three exchanges.—There are three types of inter-connected transactions entered into by members of the three exchanges. The first type of transactions is of the hedge type, the second is futures transactions of the ordinary type and the third is straddle transactions for elimination of risk. Inter-connected transactions arise when goods are purchased in the ready market according to the rules of the Grain Merchants' Association and hedged on any of the exchanges. In case of such hedging transac-

tions, the question of delivery does not arise, for when the ready stock is sold, hedge sales are covered by the purchases. Apart from such transactions stockists sell forward under the Seeds Traders' Association and the Marwadi Chamber of Commerce with a view to give delivery at the end of the Waida. In the meantime, in the course of the monthly clearings, by making frequent sales and purchases they reduce the cost of the purchase of goods considerably.

The second type of inter-connected transactions are futures transactions of the ordinary type. The members of the Grain Merchants' Association can make futures transactions of the Seeds Traders' Association and the Marwadi Chamber of Commerce as the latter two bodies are particularly interested in futures transactions. Similarly the members of the Seeds Traders' Association and the Marwadi Chamber of Commerce enter into ready transactions according to the rules of the Grain Merchants' Association.

The third form of inter-connected transactions is straddle transactions wherein the risk in one market is minimised by operations in the other market. In this connection the commodities may be altogether different, for example, purchases and sales might be made of groundnuts and future operations might be for linseed or for any other commodity. In case, however, any member fails to meet his liabilities on any of the exchanges the other trade bodies cannot intervene in the matter. However, as a custom some sort of settlement is brought about by convening a joint meeting of some prominent members of the interested trade bodies. The settlement of inter-connected transactions regarding payment and delivery is made according to the respective rules of the bodies.

The three Exchanges—Complimentary :

It appears from the above comparison that the three exchanges working at present are complimentary to one another as Waidas in the same commodity are not operating simultaneously on any of the bodies. The settlement transactions of the Grain Merchants' Association are not on a par with futures transactions proper. They are exclusively meant for members to provide them facilities to make transactions against goods whenever these are received from outside. That is, the Grain Merchants' Association is not competing with the Seeds Traders' Association as regards the futures trade in groundnuts. Competition in trading as between certain groups as, for example, amongst the Marwadi members and the Gujarati and the Cutchis

arises when some sort of speculative operations like "corners" are in progress and on such occasions a feeling of competition exists between the respective trade bodies as regards trading. At such times sentiment predominates and undue importance is given by the members interested to the position and the powers of their respective trade bodies. Under normal conditions the three exchanges hold joint meetings when any change of major importance affecting the trade is introduced.

Federation of Grain and Oilseeds Exchanges of India :

As the different trade bodies interested in the grain and oilseeds trade of this country function according to the customs and rules prevalent in their respective spheres and as this system did not bring about uniformity and co-ordination in trading, which is specially necessary in an agricultural country like India with voluminous exports and a huge quantity passing from one end of the country to other for consumption purposes it was found essential that some sort of union should be brought about to put the trade on a systematic basis. While making a system of trading uniform by standardising the contract and the trade practices or by amalgamation of bodies of the particular areas concerned and setting up a Federation for their control. The present system where there is no co-ordination has given rise to a number of abuses and malpractices and the whole trade is full of irregularities, adulteration of qualities, etc. These defects are common to the commodity exchanges in India in general but as also the exchanges in Bombay. None of the three bodies individually is in a position to supervise the entire ready and the forward trade. "The existence of a number of bodies, each having its own rules and regulations, is detrimental to the growth of uniform rules of business and various other arrangements. Sometimes the interests of these bodies prove to be conflicting and the difference between the types of contracts, rules for survey and arbitration remove the element of calculation which is so essential for a healthy development of trade."[1] Besides these exchanges are small in size, their membership and entrance fees are comparatively lower than the East India Cotton Association. The Grain Merchants' Association and the Seeds Traders' Association's membership consists of Gujaratees and Cutchees, while the majority of the members of the Marwadi Chamber

1. Gandhi, M. H. Some Problems of Seeds Trade and Industry. p. 11.

of Commerce belong to the Marwadi community. If the three exchanges are amalgamated under one Oilseeds and Grain Exchange to manage both the ready and the futures business, it will be an efficient organisation.[2] But due to sectarian and communal feelings it has not been possible so far to amalgamate the three trade bodies and to evolve a system of unitary control.

The other alternative is the specialisation of ready trade by the Grain Merchants' Association and futures business by the Seeds Traders' Association and the Marwadi Chamber of Commerce. In case of such division the three exchanges will be able to function efficiently. To what extent such sort of division is possible depends upon the degree to which members of the three bodies are prepared to compromise casting aside minor prejudices and sentiments in the larger interests of the trade.

This leads us to mention one of the important needs of the oilseeds trade. There are a number of organisations in India which regulate the forward trade in grain and seeds. These associations on account of their limited resources and knowledge are not able to do much in the organisation of trade. The members of these bodies are concerned with day to day trading. As such it may be suggested that a Federation of the Indian Grain and Oil Seeds Association may be instituted with uniform rules and up-to-date methods, to control the trade in Grain and Seeds in the whole of India. It will function on the lines of similar bodies in England and other countries. The idea was first suggested by Mr. A. M. Livingstone, the then Agricultural Marketing Adviser at the Grain and Seeds Conference which met at Delhi in April 1937. The opinions of various trade bodies were invited. Out of the twenty-five bodies addressed fifteen replies were received, all but one welcoming the formation of a Federation on sound lines and nine Associations definitely expressed their willingness to be enrolled as members of the Federation. We will give here the broad objects for which the Federation may be established.[3]

2. "Many famous businessmen are of the firm conviction that a trade will be well protected through unitary control only and that is the conviction of my humble self." Ramdas Kilachand, Presdential Address on 19th December 1938.

3. Grain and Oilseeds Conference Report, 4th April, 1938.

(a) "To protect and advance the interests of the Indian trade both internal and foreign, in grain, oilseeds and other allied commodities;

(b) "To promote friendly feeling, unity, co-operation and co-ordination of activity amongst the mercantile community generally and the different sections and associations of the Indian grain and oilseeds trade in particular in all matters of common interest;

(c) "To secure organised action direct and indirect on all subjects concerning the trade;

(d) "To collect and disseminate statistical and other information and to make efforts for the spread of commercial and economic knowledge generally and accurate information about the trade in particular;

(e) "To take steps which may be necessary for promoting, supporting or opposing legislation or any other action affecting the trade;

(f) "To provide for arbitration in respect of disputes arising in connection with the trade;

(g) "To attain those advantages by united action which each member may not be able to accomplish in his separate capacity;

(h) "To help in the organization of different trade centres of the country of associations regulating grain and oilseeds trade."

Such a Federation of Grain and Oilseeds Associations of India will be helpful to the Associations functioning in different parts of India. It will be able to make a comprehensive study of the different aspects of the grain and oilseeds trade which the present trade bodies have very little time and resources to study, their attention being confined to actual trade matters.

Comparison between the Bombay Markets and Markets in India :

Before concluding this chapter it remains to compare briefly the Bombay markets we have studied with the markets in other parts of India and abroad.

The important markets in Northern India are the Hapur Chamber of Commerce, Hapur; the Amritsar Produce Exchange, Amritsar; and the Sham Chamber Limited, Lyallpur. They have got well-defined rules and regulations like the Bombay exchanges.

They have not adopted the Standard Contract in wheat, groundnut and linseed. The contract terms of the Hapur Chamber of Commerce, the Amritsar Produce Exchange and the Sham Chamber Limited, are therefore, not uniform.

The membership of big associations like the Amritsar Produce Exchange and the Hapur Chamber of Commerce comprises all classes who trade on the exchange.

They are similar to Bombay exchanges in other respects also. They deal in spot and futures trade and provide other facilities like survey, arbitration and clearing arrangements.

As regards market information the Hapur Chamber of Commerce offers better facilities than any other exchanges in India. Hapur gets news of wheat prices from foreign countries by means of telephones and telegrams. Hapur prices are quoted in the newspapers in every part of India, as Hapur is in the midst of a wheat producing tract. Thus the three big markets of Northern India being near each other have got a good system of market intelligence so very essential for a commodity exchange.

Apart from these three big exchanges the up-country markets are small in size and lack adequate finances. They are not interested in ready transactions in which delivery is to be given or taken but in futures business only where delivery is not strictly enforced. They thus serve as a centre of legalised gambling. In Bombay this is not the case. Besides on the smaller exchanges the buyers and sellers are not fully represented. The contract forms are generally in favour of the sellers and not of the buyers. Particularly all the exchanges in the Punjab and the United Provinces work on a profit sharing basis. This fact alone leads them to start new organisations without sufficient backing. "Some of these are known to have declared very high dividends—one at Sonepat declared 300% in 1934-1935."[4]

In Bombay, except the Grain Merchants' Association, the other associations have provided a "ring" where buyers and sellers meet to transact business. In the up-country markets excluding the three big associations mentioned above the other associations do not provide necessary amenities to the members. The members usually collect at a street-corner, or under a tree and transact day to day business.

Thus the smaller and less organised exchanges in India consti-

4. Report on the Marketing of Wheat in the Punjab, p. 228.

tute the majority and that these must be reorganised thoroughly and placed on a sound footing before a Federation of Grain and Oilseeds Exchanges of India can be planned.

Indian and Foreign Exchanges—A comparison.

There are certain general similarities as between all exchanges in India and elsewhere. They are private organizations; their usual trading hours are fixed; there are defined minimum contract units and also the fluctuation units for each; and lastly, the way in which these are quoted is specified.

But on further examination of the Indian and foreign commodity exchanges we find that the Indian exchanges have not benefited by foreign experience. There is a large amount of speculation in these markets as the settlement of transactions are not strictly enforced. Several trade bodies in India do not enforce strict delivery of goods, while in the Chicago Board of Trade the settlement is strictly enforced.

The Indian exchanges are generally of small sizes and lack funds to provide all facilities of a commodity exchange which are generally found in foreign exchanges. Most of the well organised foreign exchanges serve their members with instantaneous market news from all the other larger markets of the world; with information on weather and crop conditions in most of the grain and seeds producing countries; and make available a hedging service for the use of producers, sellers, buyers and consumers of grain and seeds.

Well-organised foreign exchanges publish statistical reports, etc. regarding crop condition, imports, exports, etc. They also give publicity to day to day transactions on the floor of the exchange. The prices on the exchanges are given wide publicity, while in India these things are not properly attended to.

A common feature about all the Indian exchanges is that they do not insist on sufficiently large admission fees and subscription fees from their members. This tends to raise doubt as to the stability of the Association concerned. Particularly in case of those exchanges controlling a "futures" market stability is essential and the more this business can be concentrated on the premises of the larger associations the better, since this would tend to limit the amount of irresponsible speculation which is too common a feature of small associations. Size and financial stability are essential pre-requisites of any institution handling "futures."

CHAPTER VIII

THE THEORY OF SPECULATIVE PRICES

IN this chapter, we propose to study (1) the factors affecting prices in general, (2) the relationship of cash and future prices, (3) the effects of speculation on prices and (4) the manipulation of prices by operators. Our object is to get an insight into the working of forces which govern the behaviour of prices on organised commodity markets. With this background in view we shall proceed in the next chapter to study the prices in the Bombay markets.

(1) *Factors affecting prices in general.*

The price established in any given market for any particular commodity depends upon the balancing of several forces connected not only with that commodity but with several other commodities as well. Fundamentally, all prices are interrelated, the prices of competitive as well as complementary goods, the prices of products as well as factors, the prices of consumption goods as well as production goods. It is for this reason that economists have compared the economic system to the solar system and the movements of prices to those of the heavenly bodies, the position and orbit of each being determined by the mutual pulls of the entire system.

Every single price in the economic system is thus a function of all other prices, and what we call the forces of demand on the one hand and supply on the other turn out, on analysis, to be merely the pulls of competing demands. For, what is supply from one point of view is but demand from another point of view. Recent economists have emphasised this interdependence and have tried to work out an explanation of the entire price mechanism in terms of the scarcity of means to satisfy given ends.[1]

Nevertheless it is often useful in practice to confine oneself to the analysis of a particular commodity in a single market and work out the analysis in terms of the traditional dichotomy of demand and supply.

On the demand side, the basic factor is 'effective demand' depending upon the 'utility' of the commodity and the spendable

1. Robbins, L. Nature and Significance of Economic Science.

income of the consumers. The former includes a consideration of the uses to which the commodity may be put ; the nature of the wants it will satisfy ; the influence on these wants of fashion, habit, education, advertising and prejudice, business conditions, the possibilities of substitution, the availability of complementary goods or services, etc. The latter may be assumed to remain constant for short periods, but it plays an important part in the analysis of 'secular' trends.

On the supply side the analysis has to deal the quantity produced or marketed ; the quality of the commodity, the character of resources (including human labour and enterprise) employed in producing the commodity ; the potential supplies of resources which could be employed in producing the commodity ; the nature of the productive process; the organisation of the industry, etc.

The relative importance of these several factors varies according to the period of adjustment we have in view. Thus, in the short period, demand is a variable quantity. Supply is hardly variable as the technical equipment of the industry is assumed to remain the same. Equilibrium is attained at the point where the quantity supplied is equal to the quantity demanded. All transactions must take place at this price. The price will be higher or lower according to the strength of demand.

In the long run, however, it is possible to change the equipment of the industry in response to changes in demand. If, for instance, there is a permanent increase in demand for a particular commodity, the scale of production could be changed, and this may involve a change in the proportion of factors employed. Herein comes the relation between price and cost and the relevance of the laws of increasing, diminishing and constant costs. There is now a new condition of equilibrium, viz., that the price must be just equal to the cost of production.

All this is, however, 'static' analysis, in which the rest of the economic system is all the while assumed to remain at rest. The actual prices we have to deal with are 'dynamic' ; they are the resultant of a varying complex of forces ; not all of which are capable of being precisely foreseen or accounted for.[2]

It is this fact of imperfect knowledge or foresight which gives organised markets their characteristic role. They are institutions in which buyers and sellers meet to exchange commodities about the

2. Wicksteed, P. H. Commonsense of Political Economy.

precise position of which they are by no means certain. This uncertainty is inevitable when a relationship is sought to be established between present and future prices, or rather, between the present price of a spot commodity and the present price of a future commodity.

The so-called future price is thus only a present estimate of demand and supply in the future when the contract is to be fulfilled. The buyer as well as the seller estimates the probable conditions of demand and supply and acts on this knowledge in the hope of making a profit. On the demand side one has to consider all the general factors affecting demand with special emphasis on changes likely during the interval. Similarly on the supply side must be considered factors like possibilities of changes in local production or in foreign production or in general in any conditions such as changes in the tariff policy liable to influence future supplies.

It is clear that there must be established a certain relationship between spot and future prices ; for, a main function of a commodity exchange is to link up the future with the present, to reflect future conditions in present prices as well. It follows that prices prevailing at any given time are always influenced by the estimate of future price. In other words, prices at any given time depend not only upon the existing supplies and demand but also on market estimates about future conditions of demand and supply. It is through the present estimates of future that the present prices are linked up with future prices, and the market is made to reflect the present as well as prospective conditions.

Cash and future prices generally run parallel because "buyers of futures have the privilege of converting their future into actual grain and selling the latter if the future fails to keep pace with any advance in the price of cash grain. In any decline in cash prices, sellers of futures have the opportunity of acquiring the cash commodity at a favourable price and delivering upon their future if the latter fails to decline. It is the knowledge that these alternatives are available that keeps the future price in line with the cash."[3] But neither can determine the other ; for there are forces which affect the cash or the future prices simultaneously, or at times differently. The prospect of a poor crop for instance, will affect the

3. Hoffman, G. W. Future Trading upon Organised Commodity Market, p. 257.

future price to a greater extent than the spot price. It should be noted, however, that this is difference in degree only. The same fundamental forces of demand and supply operate in both cases; more powerfully, it may be, in one case than in the other. These forces affect the cash price if there is a variation in quantities supplied or demanded at present. But the futures are affected, primarily, if there is an expectation of greater demand or supply. Sometimes later, when the traders expect a variation in these forces after a lapse of time, they try to insure themselves against probable risks. By concluding parallel contracts in two different markets, they try to offset a probable loss in one market by a probable profit in the other. In other words, the possibility of variations in the future prices leads to hedging operations.

Relationship of cash and future prices.

The question then is what is the precise relationship of cash and future prices, or rather, what determines the spread, 'positive' or 'negative', between the two. Theoretically speaking if we assume that the stock is given, then the future price must be higher than spot price by the cost of carrying over the stock and interest on capital invested. This would be so because the only way to make the goods available in future would be to stock them and incur all these expenses. If the difference between the two prices is lower than this cost, it will pay to enter into contracts for future delivery and this fact will immediately restore the old difference. Conversely if the difference is greater it would be obviously more profitable to buy in the present and sell in the future so as to earn the margin over carrying cost. In this case, where no addition to stocks is possible, the spread must be 'positive' that is, the future must be at a premium over by the spot price, the exact amount of the premium depending upon the length of the Waida.

Let us illustrate this point. For instance, a miller buys 1000 khandies of groundnuts in January in the ready market at Rs. 40 per khandi. At the same time he makes a sale in the August Waida at Rs. 41—8 per khandi, assuming, for example, that the carrying charges for six months amount to Rs. 1—8. These carrying charges will include miscellaneous items of expenditure which would be added to the cost of purchase, when the goods are to be sold in the month of July. The miller sells the goods at Rs. 40—8 per khandi in the month of March, annas 8 being the carrying charges for two

months. As soon as he effects the sale of ready goods he has to purchase in the futures market wherein he previously sold at Rs. 41—8. The price for the August delivery in the month of March is, let us say, Rs. 41—8 per khandi, made up of Rs. 40—8 ready price plus Re. 1 carrying forward charges for four months. Accordingly in the ready market he gets annas 8 per khandi and in the futures market he is able to square up the transaction by purchasing at Rs. 41—8. There is no gain or loss in this case. However, this example is valid when all other things remain constant, which is usually not the case in the market. In the above case if the miller was not likely to obtain a price which would include the carrying charges in the ready market he would retain the goods till August and his sale transaction is already there in the futures market wherein he would have delivered the goods. Thus the existence of a normal spread facilitates hedging transactions.

If, however, we take into account the possibilities of adding to the existing supplies in course of time, for example, we expect the new crop to come into the market, then, future price will not be arrived at by adding the cost of carrying over to the spot price but by estimating what on the whole the supply and demand conditions will be at the future date. This implies not only that the margin between future and spot prices may be less than the cost of carrying over, but also that future price may even fall below spot price, that is, in our phraseology, the spread may actually be 'negative.' The spot price then tends to fall in sympathy with future prices but it cannot fall to the level of the future prices because the supplies are to come to the market only in future. In this case the future price is below the spot price and there is no single criterion in terms of which we can define the necessary spread between the two. The 'discount' on the future would depend upon the disparity between the present and the future supplies. All we can say, therefore, in this case is that the larger the disparity between the supplies in the present and the supplies to be available in the future, the wider must be the spread i.e. the larger must be the difference between the present price and the future price.

Variations in the premium on futures :

Let us assume that the futures are at a premium. If the traders expect an increase in demand without a corresponding increase in supply, futures tend to be at a premium which increases with a

lengthening of the Waida. That is, the cash future spread which is already "positive" tends to become wider.

When the traders expect a fall in demand relatively to the supply the cash-future spread, however, tends to narrow. In other words, the premium on futures decreases with the lengthening of the period. On the other hand, if these forces are extremely powerful, futures fall below the spot prices and there is a shift from premiums to discounts in the futures market.

Variations in discount :

As in the case of premiums, the rate of discount of the futures might either increase or decrease according as supplies tend to be greater or less than the demand in the futures market, i.e. the cash-future spread which is 'negative' since we start with futures at a discount—widens or narrows according as the discount increases or decreases. It is also possible that a gradual narrowing of the negative cash-future spread might take the future prices above the spot prices. In other words, the discount may give place to a premium if the decrease is rapid and continuous.

Effect of Premium and Discounts :

The narrowing of the cash-future spread tends to work in favour of or against the hedger, depending upon the relationship existing between the cash and the futures at the time the initial paired transactions were entered into. This may be explained as follows[4] :—

(1) When hedges are placed with the future at a premium over the cash and the cash-future spread narrows, the selling hedger gains, and the buying hedger loses.

(2) When hedges are placed with the future at a discount and the cash future spread narrows, the selling hedger loses and the buying hedger gains.

(3) When hedges are placed with the future at a discount and the cash and future spread narrows, the selling hedger loses and the buying hedger gains.

(4) When hedges are placed with the future at a discount under the cash and the cash-future spread widens, the selling hedger gains and the buying hedger loses.

4. The Annals of the American Academy of Political and Social Sciences, p. 82.

For example, the cash prices are Rs. 100 and futures price is Rs. 105, the spread is of Rs. 5. Now the futures price comes down to Rs. 104 thus narrowing the spread by Re. 1. The selling hedger at Rs. 105 gets Re. 1 when he purchases at Rs. 104 to square up the transaction. The buying hedger at Rs. 105 loses Re. 1 when he has to square up at Rs. 104. Similar is the case in the other three cases.

Thus, in the case of a narrowing of the spread, premiums of futures over cash are generally favourable to the hedge seller, and discounts unfavourable, and the reverse is true of the hedge buyer. The effects of a widening of the spread are obviously the opposite.

The trend of cash and future prices depends, therefore, entirely on the twin forces of supply and demand. These prices are rendered effective by the fact that traders base their expectations of future conditions on the state of the spot market and estimates of future supplies. These expectations lead, in their turn, to variations in the actual quantities of the commodity supplied or demanded in the spot market. The two prices are so closely related that it is difficult to determine which is cause and which is effect. One thing, however, emerges from this analysis. It is the present estimate of future prices which regulates and links up the supplies and demands in both the markets.

Effects of speculation on prices.

This brings us to the consideration of the effects of speculation on prices. According to the traditional theory[5] as formulated by John Stuart Mill and his followers, speculation acts as a check to violent fluctuations in price. Speculators occupy the position of specialised risk-bearers in modern economic society, which renders the producer incapable of undertaking the function of buying or selling at his own risk. The professional speculator is supposed to work on the basis of more accurate information about the possible, or probable, movements in prices in the future. This is an assumption of great importance. For unless this is true, any action by the speculator would not be in consonance with the movement of the real forces operating on the price of the commodity.

From the reports and studies made in various countries, which are available to us, it appears that the effect of speculation is to bring about a steadying of price movements. This is, in fact, one

5. Mills J. S., Principles of Political Economy, pp. 706-709.

of the chief arguments advanced in favour of organised speculation. This widely accepted view is expressed in the following statement by Emery :

"What then is the effect of speculation on prices? Primarily, as has been shown, it acts to concentrate in a single market all the factors influencing prices. In this way a single price is fixed for the whole world. By means of arbitrage transactions former differences of price in different markets have been levelled. Of this there can be no doubt. The same should be true in regard to differences of time as well as of place. Since a great change in either the demand or supply of any commodity is less unexpected, it has far less influence on price, when it finally arrives, than it would have under a non-speculative system. This is both because an excited market due to unexpected events always registers extreme prices, and also because the anticipation of changes in the market affects the immediate price. On the other hand, every slight change in demand or supply of a commodity has more influence than ever before. The more perfect the speculative market becomes the more sensitive it is to every change in conditions. An "active" stock, for example, changes prices many times in an hour. The resultant of these two tendencies of the speculative market would seem to be a state of less violent but more frequent fluctuations of price. This is the ordinary statement in regard to the matter. The contrast between the two systems has been likened to the difference between the countless waves of the sea in fair weather and its billows in a storm."[6]

The committee appointed by Governor Hughes of New York in December, 1908, to investigate the stock and produce exchanges of New York City, said in its report :

"Speculation consists in forecasting changes of value and buying or selling in order to take advantage of them; it may be wholly legitimate, pure gambling, or something partaking of the qualities of both. In some form it is a necessary incident of productive operations. When carried on in connection with either commodities or securities it tends to steady their prices. When speculation is free, fluctuation in prices, otherwise violent and disastrous, ordinarily become gradual and comparatively harmless."[7]

6. H. C. Emery, Speculation on the Stock and Produce Exchanges of the United States, pp. 120-121.

7. As quoted in Report on Cotton Exchanges, Dec. 6, 1909, p. 288.

Similar is the view maintained by the report of the futures market committee of the International Chamber of Commerce :

"This necessary activity of the market also contributes to the smoothing out of violent fluctuations in prices. It is true that futures trading being active entails more frequent oscillations in prices but over a long period there appears to be a close connection between trading in futures and reduction in the range of values."[8]

Let us see how a typical speculator is supposed to function, say, on the wheat market. Suppose that the prospects are that the wheat crop of the world available on the market at the end of next six months is small. The professional speculator is likely to be amongst the first to foresee the impending shortage sooner than others. On the basis of this knowledge he expects a rise in the price of wheat in the future ; and so that he might sell wheat later at a high price, he starts purchasing in the futures market large quantities. When a large number of speculators do likewise, an increase in the demand in the futures market raises the price of futures. Now the future prices cannot rise without affecting the spot prices. When the future price rises and the gap widens so that it is more and more profitable to buy wheat in the spot market and stock to sell in the future, there is an increase in the demand from buyers in the spot market also. The spot market is in the hands and under the control of stockists whose business it is to stock the goods. Like the speculators they are also experts in their own line and as soon as the possibility of future shortage is forecast they begin to increase their own price of the ready goods and would not part with those goods but rather retain them for selling at a later date if the price demanded by them is not received. The spot price rises, the actual rise depending upon the expected shortage in future. This induces an economy in the present, and the stock which would otherwise have been completely cleared out, is in part held over. This stock is released later when the actual shortage in the quantity of stocks affects prices in the expected manner. While the expected future shortage is great, the actual shortage is very much smaller ; for the stocks held over are added to the supply available at the end of the period. Thus the shortage is not as severe as expected, and the actual future price is considerably less than it would have been in the absence of specula-

8. International Chamber of Commerce : Futures Trading, Brochure No. 10, 1931, pp. 15-16.

tion which anticipates the shortage and evens out the supply and demand. The spot at the end of six months is higher than the spot price at the starting point, but it is not so high as it was expected to be; nor is the movement from one position to the other sudden. The change takes place gradually, and the evils which might have resulted from a violent fluctuation, occurring all of a sudden, are avoided by the action of speculators. Similarly, when the speculator, expects an increase in the supply of wheat later on, he begins selling futures, so that the spot price is reduced, and carrying over stocks is rendered extremely unprofitable. This steady fall of prices is expected to stimulate consumption, so that the increased supply in the future is met by an increased demand on the spot market later on.

This is the traditional theory on the subject, which carries with it its obvious justification of speculative transactions and also of speculative profits. If this theory is correct, it follows that speculative profits are a reward for a particular kind of economic activity, the activity concerned with evening out supplies and demands through time. It also follows as a corollary from this that although some speculators may gain and others lose, the speculators on the whole must make a profit, and that there must be some sort of an average or 'normal' rate of return on speculative activity which attracts just the socially necessary number of speculators to the market.

It is evident that this theory rests on several assumptions which may or may not be valid in practice.[9] For example, could we really be sure that speculators as we know them have really more than average foresight? Further, supposing they do have better foresight and knowledge than laymen, what matters is the estimate they make, and act on, of the expected effect of a given change of data regarding supplies of future prices. It is quite possible that an impending change in data is correctly foreseen by the speculators, but it is quite likely that some of them would expect this change to bring about a change in price by, shall we say, 10 per cent., and some would put the expected change higher or lower. The immediate profits of the more far-sighted among them would then depend upon making relatively more accurate estimates of the other people's expectations, rather than of the 'real' forces affecting the market prices.

9. The discussion which follows is based on an article by N. Kaldor entitled "Speculation and Economic Stability" in the Review of Economic Studies Vol. 7. 1939-40.

Especially when the volume of speculation in relation to actual business is large, it may be more profitable, as Kaldor argues, to concentrate on forecasting the psychology of other speculators, rather than the trend of the non-speculative elements in the situation. Under these circumstances, the effect of speculation is not to stabilise prices, but to destabilise them. The market, as a whole, may overestimate or underestimate the effect of a given change in the prospective supplies or demands, and may thus bring about fluctuations which would be greater in amplitude than perhaps in the absence of speculative activity. For when once a wrong estimate is made by the market in either direction this would most probably be followed by movement in the opposite direction, which would thus not be warranted by the initial change in the objective situation. Then, again, it is usual to discuss this question of the effect of speculation on prices by assuming on the one hand complete absence of foresight, and on the other almost perfect foresight. On such an assumption, it is, no doubt, very easily shown that speculation steadies prices by projecting the future into the present and vice versa. This, however, is at best a rather crude piece of analysis. It is simply not true that in the absence of an organised exchange and a specialised class of risk-bearers, there would be no attempt on the part of producers or consumers to anticipate future trends. The real point in favour of speculative activity on an organized exchange would have to be that this work of anticipating and allowing for the future is done better than otherwise on account either of the special facilities for better market intelligence which such institutions offer or of the better type of people whom they throw up, or perhaps on account of both these factors combined. It is undeniable that organised exchanges do play a very useful role in equalising prices in different parts of the country by making up-to-date information about crops, weather conditions, etc., available to the parties concerned, but one has to be cautious about offering any definite conclusions as to whether the body of speculators taken as a whole has or has not under modern conditions the necessary incentive and equipment to gauge correctly the real factors in the situation rather than be content to concentrate on the forecasting of other speculator's psychological reactions. The point is one which cannot be answered conclusively in the present state of our knowledge. Kaldor's arguments mentioned above do, however, suggest at least a theoretical possibility that in

the short run and for a certain range of prices speculation may often have a destabilising effect.

Let us state in somewhat more detail Kaldor's argument as to this possibility. Given a perfect or semi-perfect market for a commodity and low carrying costs, the difference between current and expected prices he shows would depend on the state of expectations. If expectations were quite certain, the expected price would vary from the current price by an amount equal to the sum of carrying and interest costs. An element of uncertainty would introduce another factor, a price for the risk undertaken in the shape of the marginal risk premium which would depend on the degree of uncertainty. The current price, however, is influenced by the expected price and this is a factor which cannot be ignored. The dependence of the current price on the expected price varies with the 'elasticity of speculative stocks' which means "the proportionate change in the amount of speculative stocks held as a result of a given percentage change in the difference between the current price and the expected price."[10] The main determining factor in this connection is, therefore, the elasticity of speculative stocks. The higher this elasticity, the greater is the dependence of the current price on the expected price.[11] This elasticity is likely to be higher in the short run and for a particular narrow range of prices than for the long run and for a broader range of prices. Thus, for instance, let us suppose that the current price of groundnut is Rs. 50 per khandi and the expected price at the end of the Waida is Rs. 53 per khandi, the difference between the two amounting to Rs. 3. The speculators would hold, if the prices were expected to remain unchanged, let us say 100,000 khandies; whereas the stocks actually held amount to 101,000 khandies. The difference between these two would be the speculative stocks, which in this case amount to 1,000 khandies. Now, suppose the price of futures

10. Kaldor's article referred to above.

11. When the elasticity of speculative stocks is infinite, the entire stock may be carried over as a result of a small variation in price; so that, in this limiting case, the current price is practically determined by the expected price. On the other hand current price is absolutely uninfluenced by the expected price when the elasticity of speculative stocks is equal to zero.

"Let us assume that this is the price the expectation of which will just suffice to maintain the existing aggregate amount of production." Marshall, Principles, 8th Ed. Bk. V. Ch. III (p. 343).

rises to Rs. 54 which means an increase of 33⅓% in the price difference; speculators would naturally try to increase the amount of stocks held so that the speculative stocks rise up to, say, 1500 khandies; in other words, there is a variation of 50% in the speculative stocks corresponding to a variation of 33⅓% in the price difference. The elasticity of speculative stocks is greater than unity and the current price will therefore be highly sensitive to changes in expected price. The relative ease with which speculative stocks vary determines the quantity of stocks available on the spot market. It is for this reason that the variation in the current price in view of expected changes in future price depends on the elasticity of speculative stocks. In our example, as the elasticity is greater than one, speculative stocks vary more than proportionately, and the current price oscillates sharply necessitating a further adjustment of expectations and thus unsettling the market. It is possible, therefore, that in the short period, the amplitude of price oscillations might increase as a result of speculative activity. According to Kaldor's theory these short period fluctuations are not due to the efforts of speculators to find and adjust themselves to the 'real' situation but due to psychological factors and uncertainty of expectations. There is thus a new factor in the situation making for instability. In the long run the expectations of speculators tend to be corrected in terms of some sort of a "normal supply price."[12] For variations due to a definite change in this "normal supply price," the elasticity of speculative stocks is small, as there is no likelihood of a smaller change in price necessitating a redistribution of stocks. If speculators believe that the normal supply price in the future will not be very different from the normal supply price of the past, prices tend towards stability. In the case of the stock exchange, there is no "normal price" of stocks and bonds in the sense of "producer's supply price." But there is a norm about which current prices fluctuate. This norm or the "normal price" of stocks is "determined by some average of past prices." The longer the period in the past which enters into the calculation of this average, the less sensitive is the expected price to movement in the current price. But in the case of agricultural crops, the supply is subject to sudden and unpredictable changes. It is not possible to arrive at a price the expectation of which will maintain the existing total production. This makes for greater un-

12. Please see p. 165.

certainty. The speculators are unable to make up their minds quickly and this fact may cause instability in the market. In other words, the length of the period under consideration relatively to possibilities of changes in the supply of the commodity determines the exact effect of speculative activity on prices. Cost of carrying, rate of interest and the element of uncertainty present are also important. But the decisive factors are the elasticity of supply and the state of expectations in any given period of time. Since this latter is essentially a phychological phenomenon we cannot assume that it will always work in the right direction, that is, in the direction of stabilising prices.

According to classical theory the short period but continuous fluctuations were, so to say, intervals. Kaldor, however, traces these short-period oscillations to the psychological factors mentioned above and argues that speculation is, quite often, the cause of major variations in prices in a particular range or period of time. One way of testing the validity of Kaldor's conclusions would be to find whether speculators in a given market make on the whole a profit or a loss. If speculators lose on the whole, the conclusion is theoretically unchallengeable that they fail to anticipate prices correctly and that on the whole their actions must be having a destabilising effect on prices. Why, it may be asked, would this not tend automatically to drive these speculators out of this business elsewhere where they could get at least some remuneration? In other words, can the supply price of speculative activity be negative? Here again it is found that the success of a few at the top may attract a large body of speculators whose losses maintain a small group of successful ones. 'Ultimately, at some stage, would-be speculators would discover that there is little scope for honest earnings through speculation. This may lead some to quit this line, but it may even lead the few powerful ones at the top to further their own ends by manipulations of prices.

Manipulation of prices.

Manipulation may be defined as an attempt at a deliberate alteration of prices by certain speculators with a view to their own gains. This is usually achieved through the initiation and spreading of false rumours or by means of "corners" and "squeezes" through "bear" and "bull" raids. To be effective these raids or rumours should be very strong; because there are in an efficiently organised market, two parties having interests of an opposite character, viz., the

bulls and bears. The forces which have been recognised by Kaldor as the basis of price fluctuations have to be disturbed violently as a result of the activities of such a clique. When expectations are rendered absolutely uncertain, a small variation in the supply of or demand for the futures would lead to sharp variations in the current and future prices in such a way as to give the manipulators a definite advantage. A short seller, for instance, can force the price down by making a series of sales progressively in the market, when there are not enough bulls (purchasers) ready to absorb all that is offered for sale on the market. In other words, he can create a false impression in the minds of other speculators viz., that there is a relatively greater supply of the commodity on the market by offering to sell his stock quickly. When the other speculators succumb to his ruse, the short seller finds himself in a position of advantage and he profits at the expense of others. The reverse of this would apply to the case of long purchases by speculators trying to raise the prices in an effort to attract others or to create a more favourable market in which they can dispose of futures at a profit.

A particular form of manipulation, which has evoked adverse comment from the economic point of view is the "corner." A corner means that a person has secured all the available supply of a commodity and has caused a sort of monopoly to come into existence. It has been described "as an acute attack of monopoly." According to Hobson, "the typical corner is a financial movement on one of the produce markets by which the wheat or cotton crops or some other important supply of food or raw material is held up for a time by speculators who hope by monopolising the supply to compel merchants or other speculators, who have bound themselves to deliver quantities of this commodity at a given date, to buy it from them at a greatly enhanced price.[13]"

Corners on an extensive scale are by no means easy especially in these days of quick transport and easy communication. It is usually not in the big movements, but in the half corners or "squeezes" that manipulation is most effective. When there is a bear account in any commodity and the bears attempt to depress its price by spreading in the market unfavourable news about it, the market is said to experience "bear raids." Sometimes the heavy sales made by the bears pass into the hands of persons who know

13. Hobson, J. A. The Evolution of Modern Capitalism. p. 177.

that there is a bear account in that commodity. The latter, therefore, secure as much supply as they can and then demand a very high price before the settlement day. The bears under such circumstances are forced to cover themselves at whatever price they can, for they have to give delivery, on the due date, of goods which in fact they do not possess. Whenever the bears have landed into such a position, there is said to be a "bear squeeze."

The possibility and existence of manipulation of prices by any section of speculators renders the normal operation of the price-determining forces extremely difficult. It has to be borne in mind, however, that prices can be raised or lowered artificially only during the short period; i.e. within the narrow range as envisaged by Kaldor. Outside that range, where the normal prices of the commodities exert their influence, such manipulation is not of much significance. Corners and squeezes are, at best, phenomena which last but for a short period; and we should keep in mind this temporary nature of gains resulting from such actions when delivering judgment upon the activities of speculators in any organised market. If, therefore, on any given exchange, such corners and squeezes occur repeatedly and bring about frequent dislocations, the conclusion inevitably is that there must be something structurally wrong with the organisation of the market.

CHAPTER IX

PRICES IN BOMBAY MARKETS

IN the light of the conclusions set out in the last chapter let us now analyse the data regarding prices on the organised markets in Bombay relating to three commodities, viz., groundnuts, linseed and wheat.[1]

(1) Groundnuts.

Conditions of supply and demand.

Groundnuts are mostly grown in India, China, French West and Equitorial Africa and Netherlands East Indies. The following table gives the average production of groundnuts in the various countries of the world during the quinquennia 1928-32 and 1933-37, and in some cases for 1938, for which some figures are available.

Table I.[2] *Production of groundnuts (in shell) in the world.*

Name of Countries.	Production—nuts in shell (1000 tons) Average 1928-32	Average 1933-37	1938
British Empire.			
India	2,457	2,822	3,398
Burma	157	155	180
Nigeria	213	337	255
Gambia	63	60	47
Tanganyika	16	25	5
Other Empire countries	25	25	Not available
Total	2,931	3,424	....
Foreign Countries.			
China	Not available	2,672	Not available
Senegal (Fr. W. Africa)	437	538	"
Other countries	178	255	"
U. S. A.	423	540	636
Netherland East Indies.	222	226	288
Argentina	62	88	Not available
Other foreign Countries.	400	460	"
Total	1,722	4,779	....
Grand Total	4,653	8,203	....

1. Castorseed is omitted as being relatively unimportant.
2. Report on the Marketing of Groundnuts in India and Burma, p. 341.

Thus during 1933-37 India produced more than 34 per cent. and China accounted for 32 per cent. of the total world output of groundnuts followed by Senegal, Nigeria, U. S. A., and Netherlands East Indies. The production in India rose from an average of nearly 2·5 million tons during 1928-32 to 2·8 million tons during 1933-37 and 3·2 million tons in 1938. Though India accounts for more than a third of the world total production, she ranks next to China in respect of yield per acre, the average yield in India being 900 lbs. as compared with China's average of 1600 lbs. per acre.

In India, goundnuts are grown in the Bombay Presidency, in the Madras Presidency, in H. E. H. the Nizam's Dominions, in Kolhapur State and Kathiawar. The season for groundnuts begins in November and December and lasts upto the end of May. The new crop comes to the market by about the beginning of November and till March it continues to move in increasing quantities to the different terminal markets in accordance with the demand at those places.

The following table indicates the enormous increase in groundnut production in India from 1925-26 to 1938-39 :—

Table II.[3] *Production of groundnuts (in shell) in the main producing areas of India (thousand tons).*

Year	Quantity	Year	Quantity
1925-26	1,611	1932-33	2,846
1926-27	1,653	1933-34	3,186
1927-28	2,268	1934-35	1,740
1928-29	2,615	1935-36	2,114
1929-30	2,180	1936-37	2,714
1930-31	2,592	1937-38	3,501
1931-32	2,151	1938-39	3,219

The above table shows the uniform upward trend from 1925-26 to 1928-29. In 1929-30 the production of groundnuts showed a

3. *Ibid.*, p. 345.

decline amounting to 435 thousand tons or 20 per cent. of the production of 1928-29.' But in the following year the production increased to 2592 thousand tons as there was an export demand. In 1931-32 there was again a decline by 19 per cent. of the previous year's figure. From 1932-33 the output began to increase but in 1934-35 there was a precipitous fall as there was a short crop harvested in India. Subsequent years saw an increase in production which reached its maximum in 1937-38 recording 3501 thousand tons, but in 1938-39 the production began to fall.

India is one of the chief exporters of groundnuts. The exports are to the following countries. (The quantity exported is in kernels and the kernels amount to 70 per cent. of the crop.)

Table III.[4] *Exports of groundnuts (mostly kernels) to different countries from British India Ports (thousand tons.)*

	Average 1909-10 to 1913-14	Average 1923-24 to 1927-28	Average 1928-29 to 1932-33	Average 1933-34 to 1937-38	1938 to 1939
United Kingdom	2	21	52	96	96
France	169	174	208	135	150
Germany	7	89	148	90	115
Netherlands	..	64	138	126	232
Italy	1	40	72	67	3
Belgium	15	11	7	24	66
Spain	1	13	..	..	..
Others	17	2	17	27	129
Total	212	414	642	565	823

Thus before the War our main customers for groundnut kernels were the United Kingdom, France, Germany, Netherlands and Italy. An idea of the percentage of exports to total production can be had from the following table compiled from the Review of the Trade of India.

4. *Ibid.*, p. 24.

Table IV. *Percentage of Indian exports of Groundnuts to total production.*

1925-26	24	1932-33	15
1926-27	16	1933-34	17
1927-28	24	1934-35	27
1928-29	26	1935-36	19
1929-30	29	1936-37	27
1930-31	19	1937-38	18
1931-32	30	1938-39	28

Variations in exports are due both to internal and external factors. The cultivation of groundnuts in other parts of the world and their competition with Indian groundnuts, the demands from new countries as well as the decline in the off-take of some of the customers are some of the external factors causing fluctuations. There is another important factor the influence of exchange rates affecting foreign exports. The internal factor is the local demand for crushing for the manufacture of groundnut oil (and groundnut cake) and vegetable products.

London prices determining Indian prices.

The prices at London provide a fair index of the world prices of groundnuts. According to the Report on the Marketing of Groundnuts in India the price between London and India differs by an amount roughly representing the expenses incurred for transport of the produce, which include expenses at the port, shipping and port charges, brokerage, insurance, freight and other incidental charges. In support of this they have given difference between average annual prices at London and Madras; and at London and Bombay[5], from 1928-29 to 1938-39. It may be mentioned that some of the items, e.g. port charges remain constant for long periods while others, such as freight vary from time to time. Certain other items such as brokerage, are based on prices themselves. The margin between Lon-

5. It is really the difference between the day to day prices between London and India that can give a correct idea of the extent of price margins and not the annual averages given in the Report on the Marketing of Groundnuts.

don and Indian prices cannot, therefore, be a fixed amount, but it is obvious that the prices in London exert a powerful influence on prices in India because the normal off-take of exporters is as much as a third of the total production. Their demand is based on the difference between the prices in London and in the terminal markets. A rise in prices offered at London naturally leads to an increase in exports; and the exporters, whose interests are strong enough to influence prices in the terminal markets, are prepared to pay a higher price which then becomes the ruling price in the market here. Again, on the forward exchanges, prices depend on the expectation of the exporters whose hedge sales form by far the most considerable part of the total transactions. Consequently, the local buyers are obliged to pay a price which is dependent on the London market.

General trend of spot and futures prices of groundnuts :

We shall now examine the general trend of spot and futures prices in the light of the conclusions reached in the last chapter. The main points which emerge from the last chapter's analysis are :

The spot and the futures prices depend on conditions of demand and supply, and the state of expectations. It is usually found, therefore, that the two move together. When it is necessary to carry stocks in order to fulfil the contract at a future date, the future price is higher than the spot price by the cost of carrying and the marginal risk premium. This premium on futures shows a tendency to increase, when traders expect an increase in demand unaccompanied by increase in supply at a later date. The cash-future spread becomes narrow when their estimates are in the opposite direction. The futures are at a discount when the end of the Waida coincides with the arrival of new supplies on the market, so that the traders are spared the necessity of carrying over stocks. The estimates of variations in supply and demand determine, in this instance also, the magnitude of cash-future spread.

The average monthly "ready" and "futures" prices of groundnuts at Bombay from 1931 to 1939 are tabulated in Appendix A at the end of the chapter. Graph I shows that in the year 1931 when the spot price rose from Rs. 27-3 in January to Rs. 32-3 in April, the futures price in the February Waida rose in the same period from Rs. 27 to Rs. 32—15. In 1932, the spot price in February was Rs. 49—1 and the futures price was Rs. 51—12 due

to foreign demand. But in August of the same year the spot price fell as low as Rs. 41—9 and the futures Rs. 34—13. From this time onwards till August 1934 it was a period of low prices and the spot and the futures moved together. Both prices again rose to Rs. 48—2 and Rs. 44—2 in January 1935 from Rs. 25—10 and Rs. 27—12 in August 1934 keeping the same trend. This upward tendency continued in 1936 and the highest spot and futures prices recorded were Rs. 54—6 and Rs. 40—13 in September of that year. In 1937 and 1938 both the prices continued declining till in 1938 November they came as low as Rs. 25—15 and Rs. 26—6. From January 1939 till the declaration of the War prices rose from Rs. 28—2 and Rs. 28—6 to Rs. 30 and Rs. 31—3. Thus the spot and the futures prices show the same trend, thereby illustrating our point that both are governed by the same set of forces.

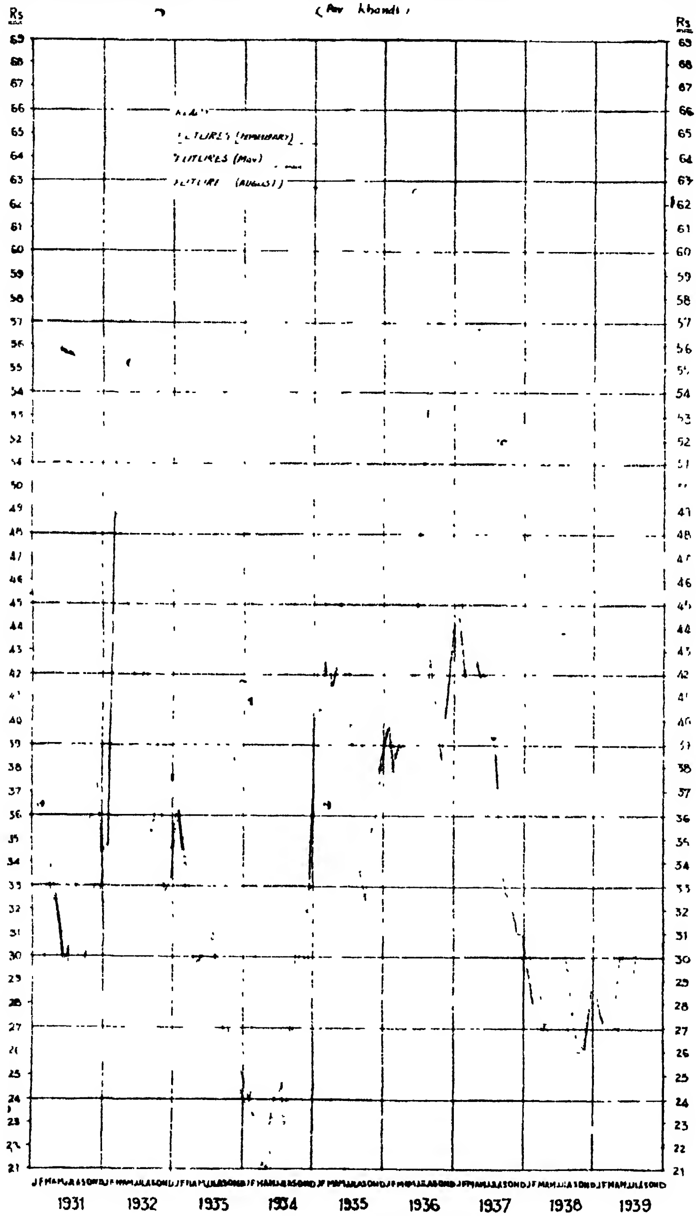
Narrowing and Widening of the spread :

Another conclusion of the last chapter was that the spread between the ready and the forward prices represents the cost of carrying and the marginal risk premium. The marginal risk premium in normal times does not usually vary much. Graph I shows that the ready and the futures prices from the month of January to the month of August for the years 1931—1939 moved generally in the same direction and the difference is usually that of carrying charges. For example, in 1936, the February spot price was Rs. 37—13 while the May Waida price in February was Rs. 38—9. The difference between the two was annas 12. This difference is accounted for by the cost of carrying over stock for three months, say at the rate of annas 4 per khandi per month. In the same year in the month of May the spot price was Rs. 39—6 and the final quotation for May Waida was Rs. 39—10. This difference of annas 4 is explained by the fact that traders would have had to carry stocks for a month only in order to fulfil the contract. Only in September, October and November when the February Waida opens the futures prices and the ready prices show a marked difference because the former are governed by the new season crop and weather conditions whereas the latter by ready stocks. Moreover, there are more fluctuations in the monsoon months of July, August and September because of varying reports of rainfall received from time to time. This explains why there is a variation between the prices in these months and the prices in the months of November, December and January.

GRAPH I.

AVERAGE MONTHLY 'READY' & 'FUTURES' PRICES OF GROUNDNUTS FOR CANDY AT BOMBAY

(Per khandi)



As stated above the spread from January to August is usually uniform from day to day. It records variations of a few annas according to the sales and purchases in the ready and the forward markets. For August onwards for reasons mentioned above the spread is greater. During the period from August to January the spread does not represent the carrying charges but shows how the different influences affect the prices. Moreover the spread does not narrow as the delivery month approaches but remains the same with minor fluctuations in the whole course of the Waida because when the ready price rises the futures also usually rise due to speculation.

We shall take one particular year to illustrate the narrowing and widening of the spread. Let us take for instance the year 1935 in which 1936 February Waida opened at Rs. 33—7. The ready price in that month was Rs. 38—12. The difference between the ready and the futures price is Rs. 5—5, and the futures are below the spot prices. The reason why the February Waida opened at a lower level was that the crop prospects of the next season were supposed to be favourable. The August Waida price in July 1935 (when the February Waida of 1936 opened) was Rs. 39—2. The August prices were governed by the surplus stock of 1934-35 season. As, however, the crop did not turn out as expected the prices of February 1936 settlement gradually went up as the demand of exporters exerted its influence during the month of January when the new crop came to the market. The spot price in that month was Rs. 39—11 and the futures was Rs. 40. In the May settlement the prices were more or less steady and in the August settlement they rose from Rs. 40—5 to Rs. 54—3, because surplus stock was less and demand had suddenly risen. Thus in the course of three settlements the prices registered a rise of Rs. 22 per khandi.

(2) LINSEED

Conditions of supply and demand.

The principal linseed producing countries of the world are Argentina, India, the United States, the U.S.S.R., and Canada, in order of importance. The following table shows the distribution of the world's linseed production among the principal countries :—

Table V.[6] *Production of Linseed in the world.*

(Thousand tons)

Countries.	Average 1909-13	Average 1931-35	1936	1937
India	497	474	478	475
Argentina	778	1775	1850	1560
U. S. A.	489	251	148	174
Canada	302	44	45	18
Other countries	231	240	391	273
U. S. S. R.	479	750	..	..
World total (excluding U.S.S.R.)	2297	2784	2912	2500

Argentina thus produces more than half of the world's crop. India accounts for nearly 17 per cent. of the world's production between 1931 and 1935 and 16 per cent. in 1936 and 1937. The production in the U. S. A. and Canada is decreasing perhaps due to the competition from Argentina.

Linseed is mostly grown in India in the United Provinces, Central Provinces, Central India, H. E. H. the Nizam's dominions, and in some parts of the Bombay Presidency. The crop comes to the market by the end of February and March. Linseed is of two qualities, Linseed Bold and Linseed Small. In the Bombay market the transactions are usually for Bold Linseed. Linseed Small is usually traded in at Calcutta. The following table shows the production of Linseed in India since the pre-war (1914) period :—

Table VI.[7] *Production of Linseed in India.*

Year or Period.	Production in tons.	Year or Period.	Production in tons.
Pre-war Average (1914)	509,920	1930-31	377,000
War Average (1914-18)	428,800	1931-32	416,000
Post-war Average (1918-22)	424,000	1932-33	406,000
1925-26	402,000	1933-34	376,000
1926-27	406,000	1934-35	420,000
1927-28	348,000	1935-36	388,000
1928-29	322,000	1936-37	420,000
1929-30	380,000	1937-38	461,000
		1938-39	442,000

6. Report on the Marketing of Linseed in India, p. 274.
7. Reviews of Trade of India, Calcutta.

The production of linseed in India is on the decline as compared with the pre-war (1914) average. There has been recovery from 1929-30 onwards, but the high figure of 466 thousand tons in 1939-40 was still lower than the pre-war (1914) average.

The proportion of exports to the total produce has been declining in recent years as the following table shows :—

Table VII.[8] *Percentage of total Indian Linseed Crop Exported.*

Year or Period.	Percentage exported to total production.	Year or Period.	Percentage exported to total production.
Pre-war Average (1914)	73	1930-31 ..	68
		1931-32 ..	29
War Average (14-18) ..	63	1932-33 ..	17
		1933-34 ..	100
Post-war Average		1934-35 ..	56
(1918-22) ..	59	1935-36 ..	42
1927-28 ..	63	1936-37 ..	70
1928-29 ..	49	1937-38 ..	49
1929-30 ..	65		

The sudden fall in the Indian export trade in lineed from 1931-32 is ascribed to the rapid decline in linseed prices since the middle of the year 1930 and the consequent trade manipulations of a number of traders in the export markets. In 1931-32, the production was 416,000 tons and in 1932-33 it was 406,000 tons, yet the exports were 29 and 17 per cent. to the total production. Thus huge stocks were held up by the merchants for better prices. Of the seeds exported, linseed and castorseed can be stored for a number of years without deterioration and this fact enabled traders to transact speculative sales in linseed. The effect of this activity was that (1) the prices of Indian linseed were kept at a higher level than the Plate linseed (Argentina) price level, and (2) large stocks of linseed accumulated in Bombay.[9] In the year 1933-34, there were heavy exports

8. *Ibid.*

9. Dr. T. G. SHIRNAME : *Marketing of some Agricultural Products exported from Bombay to United Kingdom*, p. 46.

12

(100%) due to the combined effect of the Ottawa preference in the United Kingdom and the relative scarcity of available surplus in international markets as a result of the failure of crops in Argentina. From the year 1934-35 the internal demand from the millers in India increased due to the starting of oil mills on an industrial basis. The demand from the local millers is steadily increasing and it is a great help to the linseed trade. If colour, paints, varnishing and such other industries are started, the internal demand will increase further and strengthen the position of the linseed trade which at present has to rely mainly on exports.

Argentine determining Indian Prices in London.

The United Kingdom is the biggest purchaser of both Indian and Plate linseed (Argentina) and the prices on the London market are typical of world prices. According to the Report on the Marketing of Linseed in India, the Indian linseed is fairly regularly quoted at a premium over Argentine which in some years has averaged as low as 9 per cent. and in others as much as 25 per cent. It is observed that shipments from India react very closely to the amount of the premium. When the premium is low exports are high and *vice versa.* This is because Indian linseed is imported on account of its superior quality even when it is sold at a price higher than that of the Argentine variety by a particular amount. When the difference between the two is great, there will be a diversion of demand from Indian linseed to the Argentine product. Such a diversion will reduce the export of linseed from India. Similarly, when the supplies from Argentine are limited, or are diverted to other markets like the U. S. A. leading to a rise in the price of that variety, the premium on the Indian linseed is reduced unless its price also increases *pari passu.* A reduction of the premium leads to an increase in exports due to a diversion of demand from the Argentine supplies to the Indian variety. It is therefore found that the quantity of exports from India varies in inverse ratio with the premium over the price of Argentine linseed.

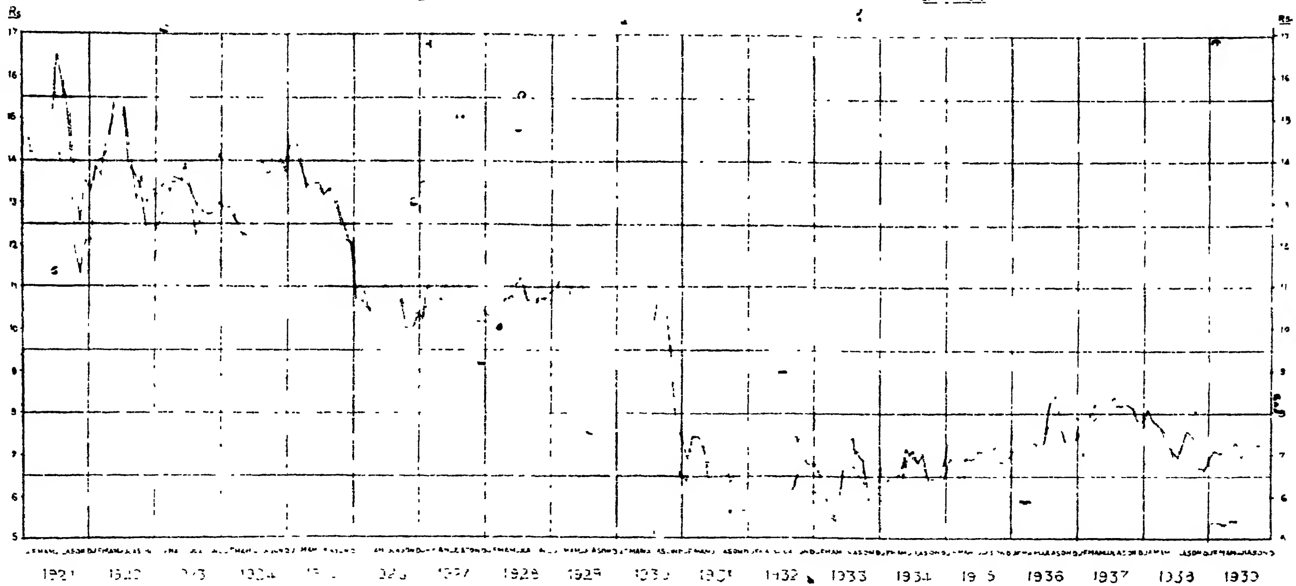
General trend of Spot and Futures Prices of Linseed :

The average monthly "ready" and "futures" prices of linseed at Bombay from 1921 to 1939 are tabulated in Appendix 'B' at the end of the chapter. Graph II shows that from 1921 to 1925 the spot and the futures prices moved together from Rs. 12 to Rs. 16

GRAPH II.

AVERAGE MONTHLY PRICES OF [illegible] IN THE BOMBAY MARKET (1921-1939)

(Per Maund)



per maund, as maximum and minimum prices. Thus in the year 1921, the spot price rose from Rs. 13-10 in January to Rs. 16-7 in July, so also the futures price in September Waida rose from Rs. 16-3 in June to Rs. 16-13 in August. The ready prices in the same year came down from Rs. 16-7 in July to Rs. 12-1 in December and the futures prices in the May Wadia followed suit from Rs. 15-5 in September to Rs. 13-8 in December. In the year 1922, both the futures and the spot rose and fell together. The spot rises from Rs. 12-1 in January to Rs. 15-5 in May and comes as low as Rs. 13-3 in December; and the May Waida in futures shows the same trend rising from Rs. 13-4 to Rs. 15-4 in July and lowers to Rs. 12-6 in December. In the following years i.e. in 1923, 1924, 1925 the spot and the futures prices rise and fall together. From 1926 to 1930, the prices varied from Rs. 10 to Rs. 11, and in 1930 the prices went as low as Rs. 7-6 per maund in the month of December. Till then the spot and the futures price moved together for in 1926 the spot price in January was Rs. 10-15 and in December it was Rs. 10-5, while the futures price was Rs. 10-9 in January and Rs. 10-3 in December during May Waida. In 1927, the spot price rose from Rs. 10-3 in January to Rs. 11-1 in June and came down to Rs. 10-2 in December and the Futures in May Waida rose from Rs. 10-3 in January to Rs. 11 in May and came down to Rs. 10-5 in December. In 1928, and 1929 when the spot price was high the futures also was high and when the spot price came low, the futures also came low. But in 1930, the spot price came down from Rs. 10-2 in July to Rs. 7-6 in December and the futures price in May Waida came down from Rs. 9-6 in August to Rs. 6-6 in December. The fall in prices was due to the slump in world prices and linseed suffered a heavy fall. In the succeeding years the prices went down a great deal and in the month of June 1932 the spot and the futures prices went as low as Rs. 5-7 and Rs. 5-13. The export demand as strengthened by the Ottawa Agreement arrested the sagging tendency and steadied the conditions in 1934. In 1934, the spot and the futures prices rose from Rs. 5-14 and Rs. 6-2 in January to Rs. 6-15 and Rs. 7 in May and in Decem-cember they came as low as Rs. 6-8 and Rs. 6-10. In 1935, there was little change in spot and futures prices. But from 1936 till the year 1939 when the War started there was an improvement in prices and the prices varied from Rs. 7 to Rs. 8. In the year 1936, the spot and the futures prices rose from Rs. 7-4 and Rs. 7-9 to Rs. 8-6 and Rs. 7-13 in August and lowered to Rs. 7-8 and Rs. 7-12 in De-

cember. In 1937, the spot and the futures moved together till September reaching the maximum at Rs. 8-3 and Rs. 8-1 and came down to Rs. 7-13 and Rs. 7-12 in December. In 1938 and 1939 till the War started the spot and the futures prices declined together from Rs. 8 and Rs. 7-15 in January 1938 to Rs. 7-3 and Rs. 5 in July 1939. Thus in linseed also the spot and the futures prices show the same upward and downward trend which goes to prove that both are governed by the same set of forces.

Narrowing and Widening of the Spread.

The factors which make for premiums and discounts have already been discussed earlier. Here we shall study the spread. Spread in the usual sense of carrying charges is maintained between the ready and futures prices of linseed as can be seen from Graph II. For futures trading in linseed, there are two Waidas in Bombay: May and September. The May Waida begins in the month of August or September of the previous year and September Waida begins in the month of April or May. The May Waida, like the February Waida of groundnuts, coincides with the beginning of the new crop season and ends with the actual arrivals of the stocks on the market. The September Waida begins when the demand and supply position are definite and closes with the end of the season. As compared to the May Waida, the September Waida shows a steadiness of the spread which points out the fact that hedging operations are in progress. In the May Waida, like the February Waida of groundnuts, the spread is much more irregular and it cannot be said for certain whether it is due to weather conditions or speculative activity.

Here we shall take particular years to illustrate the narrowing and widening of the spread. We shall take the years 1936 and 1937. In the year 1936 the spot price in January was Rs. 7—4 per maund while the futures in May in the same month stood at Rs. 7—9 as given in Appendix 'B'. The difference being annas 5 per maund. Between January and May this spread narrowed gradually and in June the futures were actually lower than the spot. The futures continued to be at a discount till September when the spread started narrowing again. In October both the spot and futures prices stood at Rs. 7—3. Subsequently the difference between the two amounted to anna 1 in November and annas 4 in December 1936 and annas 12 in January 1937. There has thus been a variation

of the spread which appears to depend first on carrying cost and secondly on the state of expectations. The periodical adjustments to be made by the operators and Teji-Mandi speculators affect the prices when clearing time approaches.

(3) Wheat.

Conditions of Supply and Demand.

Wheat is produced in almost all the principal countries of the world. Canada, Australia, America, the U.S.S.R. and India are the leading countries producing wheat. The following table shows the relation of Indian wheat to world wheat production :

Table VIII[10]. *Production of Indian and world wheat (Quintals 000's).*

	1925-29	1930-34	1936-37	1937-38	1938-39
World Production excluding U.S.S.R.	997700	1031700	958600	1038900	1228000
India	87213	97636	95854	99085	109367

Thus the production in the world rose from 997,700 thousand quintals in 1925-29 to 1,228,000 thousand quintals in 1938-39. India's share of world production has increased from 8% in 1925-29 to 9% in 1938-39.

Wheat in India is chiefly grown in the Punjab, Sind, the United Provinces, Central Indian States and to some extent in most of the parts of the country. The annual production averages 9 to 10 million tons and it is generally consumed within the country. The following table indicates production from 1920-21 to 1938-39 in India :—

10. League of Nations, Statistical Year Book, 1939-40.

Table IX[11]. *Production of Wheat in India.*

Year	Production in tons	Year	Production in tons	Year	Production in tons
1920-21	10,122,000	1926-27	8,696,000	1932-33	9,024,000
1921-22	6,760,000	1927-28	8,973,000	1933-34	9,455,000
1922-23	9,830,000	1928-29	7,791,000	1934-35	9,424,000
1923-24	9,974,000	1929-30	8,592,000	1935-36	9,725,000
1924-25	9,660,000	1930-31	10,469,000	1936-37	9,752,000
1925-26	8,866,000	1931-32	9,306,000	1937-38	10,764,000
				1938-39	9,963,000

There are a number of qualities of wheat and certain types are specially utilised by millers. Wheat is also imported into India from Australia when the prices in India are higher or when the supply is deficient. The following table gives the imports of wheat into India :

Table X[12]. *Imports of Wheat into India.*

Year	Thousand tons	Year	Thousand tons
1919-20	148	1928-29	562
1920-21	..	1929-30	357
1921-22	440	1930-31	232
1922-23	19	1931-32	111
1923-24	12	1932-33	33
1924-25	4	1933-34	18
1925-26	35	1934-35	7
1926-27	40	1935-36	13
1927-28	69		

The new crop of wheat begins to move in some districts in February-March, while in others by the end of April or beginning of May. By May, however, the conditions of supply are definite.

Regarding demand conditions it may be mentioned that the demand arises from the millers, and the general public There are

11. Area and Yield of Principal crops in India.
12. Report on the Marketing of Wheat in India, p. 40.

certain Provinces like the Punjab, the United Provinces, and Sind which make preparations from wheat flour in their daily diet and as such a steady demand exists from year to year from these areas. Regarding the millers most of the flour mills are at Bombay and Calcutta and of late flour mills have been started even round about the producing areas. The demand for wheat flour falls under two heads: (a) the internal and (b) the foreign. Development of bakeries and such other wheat consuming concerns has increased the internal demand. Similarly the demand for wheat flour of adjacent countries like Burma was also considerable. Wheat usually is not exported from India to far-off countries like the United Kingdom which gets its supply either from North or South America, from south-east European countries or Australia. The reason is that the prices of Indian wheat are higher than the other types. The latter disqualification, however, has of late been proved to be after analysis not much substantial.

Wheat comes to Bombay in large quantities from all the above mentioned areas in view of the fact that a number of flour mills exist in this Province, that the Province itself including the Indian States is a wheat consuming Province and on account of the port facilities wheat might be exported to countries like Africa.

The quantity arriving at Bombay depends upon the price of wheat in relation to that of other foodgrains. However, the demand is steady as regards the millers and upto a fairly high level of prices even from the general public. Bombay, however, cannot be said to determine the prices for wheat for the country as a whole due to the following reasons:

(a) The producing areas have got their own markets;

(b) The demand from mills at Calcutta and from mills near the producing areas affect the prices;

(c) Even if production of other foodgrains might be satisfactory in Bombay Province, same may not be the case in other areas and *vice versa*; and this also affects the prices;

(d) The demand for wheat flour from Burma and Africa may also affect the Indian wheat prices.

Under these circumstances the Bombay market cannot be said to determine the prices generally prevailing in the various markets in India.

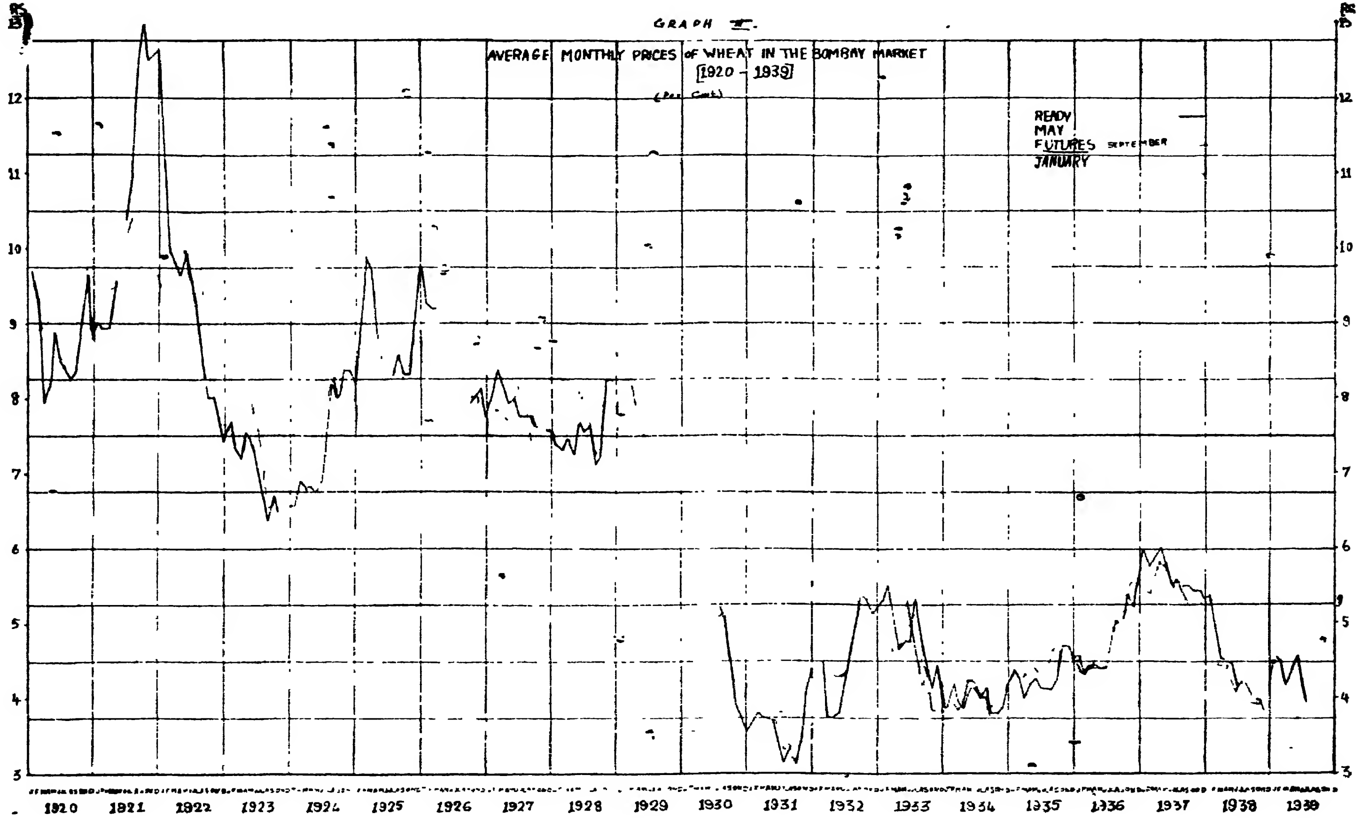
General Trend of Spot and Futures Prices of Wheat :—

As illustrated in Graph III, in the year 1920 the spot and futures prices run closely parallel, for the spot and futures price in January was Rs. 9—11 and Rs. 9—7 and in September it was Rs. 8—6 and Rs. 9 respectively. In 1921, the spot price rose from Rs. 9 in January to Rs. 12—10 in December and the futures also rose from Rs. 9—2 in January to Rs. 9—9 in December as shown in Appendix III. In the year 1922, a similar sort of tendency is observed in the ready and the futures prices, and the prices came as low as Rs. 7—7 in December. The same sagging tendency continued in the next year and the spot and the futures prices in January 1923 were Rs. 7—11 and Rs. 7—9 showed on the whole a declining tendency and the prices registered in December were Rs. 6—9 and Rs. 7—5. In 1924, the spot and the futures prices in May Waida rose from Rs. 6—9 and Rs. 7—2 in January to Rs. 8—3 and Rs. 7—9 in December. The following year shows upward movement in both spot and futures prices. But in 1926 and 1927 a downward tendency in both is observed. In the latter part of 1928 there is an improvement in both spot and futures prices, and the spot and the futures prices recorded Rs. 8—4 and Rs. 7—15 in the month of November. From 1930 onwards the wheat prices marked the lowest level as a result of the great depression in economic activity throughout the world. Prices declined rapidly in all the markets and the wheat market was no exception. In 1931 the lowest level touched in the spot market was Rs. 3—2 in the month of July. In 1932 and the former part of 1933 showed upward movement in prices and the spot and the futures moved together. The next year i.e. 1933 saw a decline in both spot and futures prices. Thereafter, till the declaration of the war in September 1939 the spot and the futures prices did not register any wide fluctuations and both prices moved upward and downward indicating that both were governed by the same set of forces.

Widening and Narrowing of the Spread :

Before considering the narrowing and widening of the spread, we have to take into consideration three delivery periods : May, September and January in the case of wheat. Out of these three periods, the May period from the trade point of view is more important because like the May Waida of groundnuts it represents a time when a major portion of fresh production had already begun to move to the terminal markets. Accordingly, hedging operations

GRAPH II.


AVERAGE MONTHLY PRICES of WHEAT IN THE BOMBAY MARKET
[1920 - 1939]
(Per Cwt.)
READY
MAY
FUTURES SEPTEMBER
JANUARY
Rs
13
12
11
10
9
8
7
6
5
4
3
1920
1921
1922
1923
1924
1925
1926
1927
1928
1929
1930
1931
1932
1933
1934
1935
1936
1937
1938
1939

are likely to take place to a greater extent during this period. The latter two periods coincide with the end of the season and the beginning of the new season. Trading in these Waidas is mostly for the surplus crop and the crop prospects of the new season also influence the prices.

As shown in Graph III, the following tendency as regards widening and narrowing of the spread is observed in general. The May futures prices are higher in the beginning and then the margin narrows by about February-March and in the month of April-May, the ready and futures prices are more or less similar. The September futures prices are higher in the beginning and the ready prices assume rising tendency thus getting close to the September prices in the month of September. The January futures prices from the beginning run parallel to the ready prices and the spread remains more or less constant. The reason why May prices are higher in the beginning than the ready prices is that speculative trading has scope to exert influence till the new crop actually begins to move. In 1936 and 1937 for instance, the ready prices go on increasing as the season ends, thus narrowing the spread. In the month of February-March the ready prices fall and the May prices also show a falling tendency due to the above reason, thus the spread becomes narrow, both prices seeking an equilibrium. The September prices are higher because when this Waida begins in April or May the season is in full swing and as such the ready prices cannot show in the beginning the higher tendency. But as the period advances and the May transactions are over, ready prices on occasions relate only to the surplus stock and by rising narrow the spread. January prices and the corresponding ready prices depend upon the surplus stock only and as such the spread neither widens nor contracts to a great extent.

Effects of speculation on groundnuts, linseed and wheat.

At the outset, it is necessary to be clear on the point that it is almost impossible to measure statistically the stabilising or destabilising effect of speculation on prices. The stabilising effect, as we have seen, should be noticeable over a long period, whereas for shorter periods, the effect is destabilising because of various psychological or sentimental factors. It is well known that there are any number of variations between the prices recorded in the course of a single day. Whether all these variations could be regarded as attempts to find the true equilibrium level—if one could at all talk

of such a level for a very short period such as a day or a few days—, or whether these variations are just sporadic or haphazard one cannot judge *a priori*. Nor is it certain that elaborate statistical analysis would be able to give a correct interpretation of the same. Even as regards the long run effect, as these are complex factors, real and monetary, operating simultaneously, the task of judging the stabilising or destabilising effect of speculation becomes exceedingly difficult, if not impossible. In this section, therefore, we offer a few comments purporting to bring out what appears to be the main characteristics of speculative prices in respect of the commodities we have studied, especially from the point of view of the capacity of speculators to manipulate prices. In regard to groundnuts speculators have very little scope for maintaining prices in view of the fact that the conditions affecting the ready trade are clear-cut, definite, and to a great extent stable. Further, stocks cannot be carried over for any length of time as in the case of linseed or castorseed ; whereas, the demand coming as it does from the exporters banking on a margin of difference between the London and Bombay prices is highly elastic. This does not allow speculators much scope for price manipulations. Expert speculators would be able to guess the maximum or minimum limits of the prices in a particular season. This is in so far as natural factors are concerned, but when artificial factors like restrictions of transport and scarcity in the Bombay market arises, the speculators can manipulate prices by affecting the supplies available on the market as during the War. It is the common experience on exchanges that when there is *Teji* all will anticipate a high price and in the general buoyancy the prices are pushed up. When there is *Mandi* everybody will apprehend the prices to go down to very low levels and there is general selling. Such occasions have been, however, on the whole rare for the groundnut trade.

In the previous chapter, it was mentioned that the speculators might steady prices if they function on the basis of more reliable information than the ordinary traders and act with a sense of responsibility. In the groundnut trade the speculators have not been a destabilising influence on prices of the three Waidas in comparison to the fair average price of the season. However, it is not the sense of responsibility which enables them to do so ; the genuine position is such as to leave them little scope for manipulation of prices. This is why it may be said that the exchange in groundnuts records prices and does not make prices.

On analysing the linseed prices from year to year, we find that the futures prices do not maintain a steady relation with the ready prices due to the fact that the demand position is not as strong as that of groundnuts ; and the supply position does not vary appreciably. The linseed market is also subject to influence from other exchanges, notably cotton, perhaps due to the fact that the operators are the same. Speculation or futures trading in these circumstances is not in a position to steady the level of prices. Hedge trading and speculative trading which usually steady the prices appear to subserve sentimental trading in this market. This can be substantiated by observing the movements of linseed prices on some particular days when the rise or fall is due to reasons other than those of actual demand and supply.

Linseed trade offers a great scope for corners and squeezes also. On account of limited supply and irregularity of demand, endeavours are made at times for such operations and straddle transactions with foreign countries are simultaneously entered into in order to minimise the risk. Instances, however, are there which show that manipulations of prices were to some extent successful as in the years 1926, 1931, 1938 and 1939. The possibility and frequency of such manipulations indicates the destabilising influence of speculation on prices in the linseed market.

In the case of wheat the extent of hedging operations on the futures market enables the ready and the futures prices to maintain a steady relation. Both demand and supply conditions are fairly stable, so that the distribution of stocks overtime is possible and effective. Since the speculators are not faced with major uncertainties—the main element of risk involved in futures being the effect on supplies due to sudden changes in weather—the futures prices closely approximate the expected price, and the ready price maintains considerable stability. The absence of corners and squeezes on the wheat market indicates that these forces are so powerful as to allow little scope for manipulation of prices by the speculators. It is found that. as in the case of groundnut, the speculators have not been able to affect the prices adversely. On account of the interdependence of ready and future prices, the effectiveness of hedging and option trading operations, the wheat market comes nearest to a real organised market working to the general advantage of the community.

APPENDIX A TO CHAPTER IX.

A. *Average monthly prices of Groundnuts in the Bombay Markets (per Khandi).*

	1931			1932		1933			
	Spot.	Futures		Spot.	Futures	Spot.	Futures		
		Feb.	May		Feb.		Feb.	May	Aug.
	Rs. as.	Rs. as.	Rs. as.	Rs. as.	Rs. as.	Rs. as.	Rs. as.	Rs. as.	Rs. as.
Jan.	27 3	27 0		34 11	34 15	36 14	36 7	36 8	
Feb.	30 0	29 9	32 11	49 1	51 12	33 12	33 6	34 2	...
March	33 2	...	34 1	47 14		30 15	...	32 6	...
April	32 3	32 15	32 8	45 0	...	29 1	...	29 14	31 11
May	29 11	31 2	30 2	42 13	...	30 5	...	30 2	32 13
June	30 0	30 14	...	39 11	...	30 15	...	...	32 12
July	31 14	28 8	...	42 8	...	30 6	31 13	...	30 14
Aug.	33 12	...	...	41 9	34 13	28 2	29 10	...	28 3
Sept.	34 11	29 9	...	40 5	36 4	26 4	27 13	...	...
Oct.	36 1	31 15	...	36 9	34 2	25 0	26 2	...	...
Novr.	27 8	33 5	...	34 6	32 15	24 11	25 14	...	...
Decr.	34 6	33 2	...	34 11	33 10	24 1	24 15	...	...

	1934				1935			
	Spot.	Futures			Spot.	Futures.		
		Feb.	May	Aug.		Feb.	May	Aug.
	Rs. as.	Rs. as.	Rs. as.	Rs. as.	Rs. as.	Rs. as.	Rs. as.	Rs. as.
Jan.	23 7	24 1			48 2	44 2	46 15	
Feb.	23 2	25 1	24 11	...	42 8	42 12	45 0	...
March	21 4	...	23 10	...	39 11	...	41 7	...
April	20 5	...	20 9	21 14	42 3	...	42 6	44 7
May	22 3	...	21 14	23 7	43 7	...	43 4	45 1
June	26 14	24 4	...	20 11	41 4	...	...	44 2
July	22 8	25 0	...	22 10	38 12	33 7	...	39 2
Aug.	25 10	27 12	...	23 1	41 4	33 12	...	41 8
Sept.	28 12	30 11	...	...	37 13	32 8	...	...
Oct.	30 10	32 6	...	...	38 12	35 5	...	...
Nov.	29 6	32 1	...	...	38 2	36 4	...	...
Dec.	35 5	35 15	...	...	37 13	38 7	...	...

	1936				1937			
Jan.	39 11	40 0	40 10		44 1	44 10	46 3	...
Feb.	37 13	37 8	38 9	...	41 14	42 1	43 13	...
March	38 12	...	39 9	...	42 13	...	43 14	...
April	39 1	...	39 12	40 5	42 8	...	42 12	44 5
May	39 6	...	39 10	39 13	41 14	...	41 5	42 10
June	43 2	...	...	46 1	...	...	...	40 13
July	49 11	39 13	...	50 10	...	38 13	...	39 12
Aug.	53 2	42 15	...	54 3	...	35 0	...	36 10
Sept.	54 6	40 13	...	...	...	32 15	...	...
Oct.	...	38 4	...	...	...	32 8	...	...
Nov.	40 0	41 7	...	...	32 3	31 3	...	...
Dec.	42 13	44 0	...	...	30 10	31 1	...	...

	1938				1939			
Jan.	29 6	29 13	31 0	...	28 2	28 6	29 2	...
Feb.	27 8	28 3	29 5	...	27 8	27 6	28 7	...
March	28 2	...	28 15	...	27 3	...	28 2	...
April	26 14	...	27 3	28 4	27 3	...	27 7	28 9
May	27 3	...	27 1	28 1	26 14	...	30 14	32 0
June	28 7	...	...	28 15	30 15	...	...	32 6
July	29 1	31 3	...	29 4	30 5	29 6	...	31 14
Aug.	27 13	29 9	...	27 11	30 0	31 3	...	...
Sept.	26 4	27 3	...	...				
Oct.	25 15	26 10	...	...				
Nov.	25 15	26 6	...	...				
Dec.	27 8	28 12	...	...				

APPENDIX B TO CHAPTER IX.

B. Average monthly prices of Linseed in the Bombay Markets (Per Bengali Maund).

	1921			1922			1923			1924		
	Spot Bold.	Futures		Spot Bold.	Futures		Spot Bold.	Futures		Spot Bold.	Futures	
		May	Sept.		May	Sept.		May	Sept.		May	Sept.
	Rs. a.	Rs. a.	Rs. a.	Rs. a.	Rs. a.	Rs. a.	Rs. a.	Rs. a.	Rs. a.	Rs. a.	Rs. a.	Rs. a
Jan.	13 10	15 1	...	12 1	13 4	...	13 0	12 7	...	13 11	12 13	...
Feb.	12 15	14 3	...	13 14	13 13	...	13 4	12 11	...	13 8	12 13	...
March	13 3	14 3	...	4 0	13 10	...	13 2	13 2	...	12 10	12 9	...
April	13 12	14 0	...	14 4	14 6	..	13 7	13 7	...	12 4	12 4	...
May	...	...	...	15 5	15 1	...	13 6	13 5	...	12 3	12 2	...
June	15 0	...	16 3	14 14	...	...	13 5	13 14	...	12 7	...	...
July	16 7	...	14 0	15 2	15 4	...	13 4	13 4	...	13 8	13 11	...
Aug.	15 9	...	16 13	14 0	13 15	...	12 13	12 3	...	13 10	13 15	...
Sept.	14 9	15 5	15 2	13 0	13 10	...	13 8	12 12	...	13 9	13 10	...
Oct.	11 12	13 12	...	13 10	13 5	...	13 12	12 11	...	14 2	13 12	...
Nov.	11 4	12 9	...	12 15	12 4	...	13 14	12 11	...	14 0	13 15	...
Dec.	12 1	13 8	...	13 3	12 6	...	14 2	12 15	...	13 14	13 12	...

	1925			1926			1927			1928		
Jan.	14 5	14 1	...	10 15	10 9	...	10 3	10 3	...	10 1	10 3	...
Feb.	14 7	14 3	...	10 15	10 9	...	10 11	10 15	...	9 15	10 3	...
March	13 15	13 14	...	10 7	10 6	...	10 10	10 11	10 15	9 15	10 5	10 10
April	13 2	13 5	...	10 3	10 7	10 10	10 10	10 12	11 2	10 7	10 10	10 10
May	13 6	13 7	...	10 5	10 7	10 12	10 15	11 0	1 9	10 12	10 12	11 3
June	13 7	13 5	...	10 10	...	11 0	11 1	...	11 10	10 8	10 15	10 11
July	13 3	13 3	...	11 2	...	11 8	10 12	11 2	11 1	10 8	11 1	10 13
Aug.	13 4	13 4	...	11 1	...	11 3	10 9	11 0	10 12	10 5	10 9	10 6
Sept.	12 15	13 4	...	10 11	10 10	10 12	10 9	11 0	10 9	10 2	10 8	10 5
Oct.	12 8	12 12	...	10 6	9 15	...	10 3	10 8	...	10 11	10 9	...
Nov.	12 2	12 4	...	10 5	9 15	...	10 2	10 7	...	10 10	10 10	...
Dec.	12 0	12 0	...	10 5	10 3	...	10 2	10 5	...	10 13	10 9	...

	1929			1930			1931			1932		
Jan.	10 14	10 10	...				6 12	6 3	...	...	...	...
Feb.	11 2	11 10	11 5				7 6	7 5	7 8	6 10	7 1	...
March	11 0	11 1	11 7				7 6	7 5	7 7	...	...	...
April	10 12	10 14	11 4				7 2	7 2	7 4	5 13	5 14	6 5
May	10 11	10 12	11 1				6 7	6 9	6 12	5 12	5 13	6 2
June	10 10	10 14	10 14				6 6	7 5	6 8	5 7	...	5 13
July				10 2	...	10 5	6 10	7 3	6 14	5 9	...	6 0
Aug.		Prices not		10 12	9 6	10 10	6 3	6 14	6 4	6 0	6 15	6 3
Sept.		available		10 13	...	...	5 9	6 3	6 2	6 7	7 5	6 10
Oct.				9 8	7 11	...	6 4	6 8	...	6 4	5 10	6 14
Nov.				7 14	7 0	...	6 3	6 9	...	6 1	6 10	...
Dec.				7 6	6 6	...	6 4	6 9	...	6 1	6 10	...

	1933			1934			1935			1936		
Jan.	6 0	6 10	...	5 14	6 2	...	6 15	7 4	...	7 4	7 9	7 10
Feb.	5 11	6 1	6 5	6 1	6 4	6 8	6 9	6 13	6 13	7 1	7 5	7 8
March	5 8	5 8	5 15	6 1	6 3	6 8	6 4	6 8	6 12	7 3	7 5	7 8
April	5 6	5 6	5 14	6 5	6 7	6 14	6 9	6 12	7 0	7 4	7 5	7 9
May	5 15	5 15	6 9	6 15	7 0	7 4	6 11	6 12	7 0	7 2	7 2	7 6
June	6 3	7 2	6 8	7 1	6 14	7 4	6 8	6 15	6 12	7 4	7 3	7 7
July	6 12	7 4	7 7	6 12	6 11	6 14	6 8	6 15	6 12	8 3	7 9	8 5
Aug.	6 8	6 15	6 10	7 0	6 13	7 1	6 9	6 15	6 10	8 6	7 13	8 11
Sept.	6 6	6 12	6 7	6 5	6 5	6 5	6 10	7 0	6 10	7 10	7 8	7 6
Oct.	5 14	6 2	...	6 4	6 4	...	6 13	7 3	...	7 3	7 3	...
Nov.	6 1	6 3	...	6 3	6 4	...	6 13	7 2	...	7 2	7 3	...
Dec.	5 14	6 2	...	6 8	6 10	...	6 15	7 2	...	7 8	7 12	...

	1937			1938			1939		
Jan.	6 15	7 11	7 14	8 0	7 15	8 2	7 1	5 4	5 6
Feb.	7 5	7 8	7 12	7 12	7 11	7 14	7 0	5 4	5 5
March	7 13	7 15	8 3	7 10	7 9	7 11	7 0	5 3	5 6
April	7 15	8 2	8 6	7 6	7 7	7 8	7 11	5 4	5 6
May	8 2	8 4	8 6	7 2	7 3	7 0	7 14	5 4	5 7
June	7 15	8 1	8 2	6 15	6 10	6 14	6 14	4 14	5 1
July	8 2	8 3	8 4	7 2	...	7 4	7 3	5 0	5 2
Aug.	8 2	8 0	8 2	7 9	...	7 10			
Sept.	8 3	8 1	8 4	7 7	...	7 14			
Oct.	8 2	8 3	...	6 11	4 12	...			
Nov.	7 11	7 11	...	6 10	4 12	...			
Dec.	7 13	7 12	...	6 15	5 2	...			

APPENDIX C TO CHAPTER IX

C. *Average monthly prices of Wheat in the Bombay Markets*

(per Cwt.)

	1920			1921			1922		
	Spot.	Futures		Spot.	Futures		Spot.	Futures	
		May	Sept.		May	Sept.		May	Sept.
	Rs. as.	Rs. as.	Rs. as.	Rs. as.	Rs. as.	Rs. as.	Rs. as.	Rs. as.	Rs. as.
Jan.	9 11	9 7		9 0	9 2		11 0	9 5	
Feb.	9 5	9 5		8 15	9 1		9 15	9 7	
March	7 15	8 13		8 15	9 4		9 13	9 12	9 13
April	8 2	8 14		9 9	9 6		9 10	9 10	9 11
May	8 14	9 4		...	...		9 15	9 15	10 4
June	8 8	9 8		10 6	...	10 2	9 10	...	10 1
July	8 6	8 7	8 9	10 15	...	10 7	9 1	9 5	9 11
August	8 4	8 10	8 11	12 5	...	11 3	8 12	9 5	9 1
Sept.	8 6	9 0	8 11	12 8	10 4		8 0	8 10	8 4
Oct.	9 0	9 10		12 9	9 13		8 0	8 3	
Nov.	9 10	...		12 10	9 7		7 11	7 12	
Dec.	8 13	9 5		12 10	9 9		7 7	7 9	

	1923				1924				1925			
	Spot.	Futures			Spot.	Futures			Spot.	Futures		
		May	Sept.	Jan.		May	Sept.	Jan.		May	Sept.	Jan.
	Rs. a.	Rs. a.	Rs. a.	Rs. a.	Rs. a.	Rs. a.	Rs. a.	Rs. a.	Rs. a.	Rs. a	Rs. a.	Rs. a.
Jan.	7 11	7 9			6 9	7 2			8 14	8 4		
Feb.	7 5	7 7			6 14	7 0			9 14	8 13		
March	7 3	7 5			6 13	6 13	7 2		9 11	8 10		
April	7 8	7 8	8 4		6 13	6 10	7 1		8 13	8 6	8 7	
May	7 6	7 2	7 14		6 12	6 8	7 1		...	8 11	8 10	
June	7 1	7 15	7 11		6 15	...	7 9		...	8 1	8 9	
July	6 13	7 10	7 4		7 12	8 6	8 2		8 5	8 0	8 6	
Aug.	6 6	6 13	6 9		8 3	8 9	8 5		8 9	8 1	8 7	
Sept.	6 11	7 4	6 10		7 15	8 0	7 11		8 5	8 3	8 4	
Oct.	6 7	7 4			8 6	8 4			8 5	8 4		
Nov.	...	7 8			8 6	7 13			9 2	8 10		
Dec.	6 9	7 5			8 3	7 9			9 12	8 14		

	1926				1927				1928			
Jan.	9 4	8 7			8 0	7 7	7 8	8 1	7 6	7 6	7 5	
Feb.	9 3	8 7			8 6	7 13	7 14	...	7 5	7 4	...	
March	9 3	8 4			8 2	7 11	7 13	...	7 7	7 6	...	
April	...	8 13	8 7		7 15	7 10	7 12	...	7 4	7 9	...	
May	8 10	8 7	...		8 0	7 14	8 0	...	7 11	7 11	...	
June	...	8 6	...		7 12	...	8 3	...	7 9	8 0	...	
July	8 0	...	8 6		7 12	7 12	8 0	...	7 10	8 0	...	
Aug.	...	...			7 12	7 14	7 13	8 0	7 2	7 11	...	
Sept.	7 15	7 11		8 0	7 10	7 10	7 7	7 12	7 4	7 11	8 6	
Oct.	8 0	7 7		8 0	...	7 9		7 8	8 4	7 15	8 7	
Nov.	8 2	7 7		8 0	7 9	7 10		7 10	8 4	7 15	8 7	
Dec.	7 12	7 7		7 13	7 9	7 8		7 7		7 14	8 7	

	1929				1930				1931			
Jan.	...	7 14	...	8 9					3 10	4 0	...	
Feb.	7 12	8 7	8 5	...					3 13	4 3	4 8	
March	...	8 7	8 3	...					3 12	4 0	4 3	
April	...	7 15	7 13	...					3 12	3 14	4 0	
May	7 4	7 6	7 8	...					3 11	3 13	3 14	
June		7 5	7 3	...					3 6	3 14	3 9	
July	Prices not available								3 2	3 12	3 5	
Aug.					5 2	5 8	5 2		3 6	4 0	3 7	
Sept.					4 9	5 0	5 8		3 2	3 13	3 3	
Oct.					3 15	4 11	...		3 6	4 1	...	
Nov.					3 12	4 5	...		4 1	4 7	...	
Dec.					3 9	4 0	...		4 6	4 11	...	

APPENDIX TO CHAPTER IX—(Contd.)

	1932				1933				1934			
Jan.	...	...	...		5 5	4 11	...	...	3 13	3 13	...	
Feb.	4 8	4 15	...		5 8	4 13	4 13	...	4 3	3 15	4 0	
March	...	...	...		5 2	4 9	4 10	...	3 15	3 14	3 14	
April	3 12	4 4	4 5		4 10	4 9	4 10	...	3 14	3 15	3 15	
May	3 13	4 2	4 4		4 12	4 14	5 0	...	4 2	4 3	4 4	
June	4 5	...	4 6		4 12	5 4	5 0	5 8	4 2	4 6	4 4	
July	4 10	...	4 12		5 1	5 5	5 3	4 14	4 0	4 1	4 1	
Aug.	5 1	5 2	5 1		4 9	4 13	4 10	4 10	4 2	4 6	4 1	4 3
Sept.	5 6	5 3	5 5		4 7	4 6	4 6	4 4	3 13	4 2	3 13	4 7
Oct.	5 5	5 3	...		4 2	4 1	...	4 6	3 13	4 3	...	4 1
Nov.	5 2	4 11	...		4 7	4 1	...	3 15	3 14	4 6	...	3 15
Dec.	5 4	4 14	...		3 15	3 12	...		4 3	4 10	...	4 3

C. *Average Monthly Prices of Wheat in the Bombay Markets.* *(Per Cwt.)*

	1935				1936				1937			
	Spot	Futures.			Spot	Futures.			Spot	Futures.		
		May	Sept.	Jan.		May	Sept.	Jan.		May	Sept	Jan.
	Rs. a.	Rs. a.	Rs. a.	Rs. a.	Rs. a.	Rs. a	Rs. a	Rs. a.	Rs. a.	Rs. a.	Rs. a.	Rs. a.
Jan.	4 6	4 14	...	4 5	4 8	4 9	4 9	4 9	6 0	5 9	5 8	5 14
Feb.	4 6	4 9	4 6	...	4 5	4 6	4 9	...	5 12	5 8	5 7	...
March	4 0	4 4	4 5	...	4 7	4 6	4 7	...	5 14	5 11	5 11	...
April	4 3	4 9	4 7	...	4 7	4 7	4 7	...	6 0	5 14	5 14	...
May	4 4	4 6	4 7	...	4 6	4 7	4 7	...	5 13	5 10	5 12	5 14
June	4 2	4 9	4 5	4 8	4 7	4 10	4 7	...	5 8	5 8	5 8	5 11
July	4 2	4 9	4 4	4 7	4 12	4 13	4 12	...	5 9	5 10	5 10	5 15
Aug.	4 2	4 7	4 4	4 6	5 0	5 1	5 1	...	5 8	5 8	5 7	5 12
Sept.	4 4	4 8	4 4	4 6	5 0	4 15	5 0	...	5 8	5 6	5 5	5 9
Oct.	4 11	4 11	...	4 13	5 6	5 3	...	...	5 7	5 4	...	5 7
Nov.	4 11	4 11	...	4 12	5 3	5 3	...	...	5 7	5 0	...	5 5
Dec.	4 8	4 9	...	4 10	5 9	5 9	...	...	5 5	4 15	...	5 3

	1938				1939			
Jan	5 6	4 14	4 14	5 4	4 9	3 9	3 10	4 1
Feb.	5 0	4 12	4 12	...	4 8	3 8	3 8	...
March	4 9	4 7	4 8	...	4 8	3 8	3 1	...
April	4 8	4 7	4 8	...	4 6	3 4	3 6	...
May	4 7	4 5	4 5	4 5	4 9	3 6	3 8	3 12
June	4 3	4 1	4 2	4 5	3 15	3 4	2 15	3 3
July	4 4	...	4 4	4 6	4 0	3 4	2 15	3 3
Aug.	4 2	...	4 1	4 3				
Sept.	4 0	...	4 0	4 1				
Oct.	4 0	3 2	4 0	4 1				
Nov.	3 13	3 2	...	3 14				
Dec.	4 5	3 7	...	4 5				

CHAPTER X

THE WAR AND THE COMMODITY EXCHANGES

IT remains to examine briefly the effects of the War on the working of commodity exchanges.

With the outbreak of War in September 1939, there was a bullish tendency in all the commodity markets. The Calcutta Index Number of Prices with July 1914 as base (= 100) rose from 100 in August 1939, to 114 in September 1939, the first month of the War. This initial rise was an index of the buoyant feeling which was rapidly spreading in all markets.

In Bombay, an ordinance prohibiting option in cotton was issued on 22nd September 1939, in view of the very disturbed conditions and violent fluctuations prevailing in the Bombay Cotton Market since the declaration of war. This measure declared void all transactions in teji-mandi. It was recognised, however, that this measure may not altogether put a stop to options trading since no penalties were attached, and it was with this realisation that the Government of Bombay in the statement at the end of the ordinance declared its intention "to bring forward legislation which would effectively stop" options trading if the present measure failed to achieve its object. This ordinance had its effect in arresting the upward trend of cotton prices for some time. But the speculative activity which started from the Calcutta Jute Market spread like a contagion from market to market and spread rapidly to cotton, cereals and other commodity markets.

It was at this time that the First Price Control Conference was held, on October 18 and 19, 1939. This conference came to the conclusion that it was not at that stage necessary to prevent the rise in prices of agricultural products. Meanwhile the Calcutta index number of wholesale prices had risen from 118 in October to 131 in November, and stood at 131 also in December. We find, for example, that raw cotton Broach quoting at Rs. 135 in August rose to Rs. 240 in November and Rs. 338 in January. Similar conditions prevailed in seeds and other markets. The following table shows the closing prices of groundnuts, linseed and wheat in the Bombay market from September 1939 to December 1939 at the end of every week.

Table I. *Fluctuations in Individual Commodity Prices.*

Week	Groundnuts. Feb. Waida.	Linseed. May Waida.	Wheat. May Waida.	Wheat. Jan. Waida.
	Per Khandi. Rs. a. p.	Per Bengal Md Rs. a. p.	Per cwt. Rs. a. p.	Per cwt. Rs. a. p.
8-9-1939	34 0 0	5 14 6	3 11 3	3 11 3
15-9-1939	35 12 0	6 6 9	4 0 9	4 0 9
22-9-1939	37 12 0	6 7 0	3 15 9	3 14 9
29-9-1939	37 8 0	6 6 0	3 15 0	3 13 9
9-10-1939	35 2 0	6 0 3	3 13 6	3 11 6
16-10-1939	36 14 0	6 5 3	3 15 3	3 13 0
23-10-1939	35 13 0	6 1 0	3 15 0	3 13 0
30-10-1939	36 10 0	6 6 9	4 1 9	3 14 6
8-11-1939	38 14 0	7 2 6	4 5 0	4 0 6
15-11-1939	39 9 0	7 7 6	4 5 3	4 0 3
29-11-1939	45 14 0	9 1 6	4 15 3	4 9 3
1-12-1939	..	9 12 0	5 2 9	4 11 0
8-12-1939	45 7 0	9 3 3	4 15 9	4 8 3
15-12-1939	44 12 0	9 7 6	5 0 3	4 7 9
22-12-1939	39 3 0	8 11 6	4 15 3	4 6 3
29-12-1939	42 5 0	9 7 3	5 0 3	4 5 3

Thus from the above table we see that there were strong bullish tendencies during the first four months (September 1939 to December 1939) of the war period. A general rise of this magnitude in the first four months of war caused extraordinary activity in commercial circles. The intensification of warfare on the Continent expected brighter prospects for Indian industries and agriculture. The cause of the rise in prices was the acceleration of export movement following the increased demand for Indian produce, the decline in imports owing to the difficulty of obtaining freight, domestic buying for profiteering or for providing for future shortage, holding back of supplies for high prices, speculative operations in the market and general optimism both as regards the future trend of commodity values as well as the volume of offtake.

Bearish Tendency in the Market.

In January 1940, there began a decline in prices. Unpleasant surprises which war had in store began to be felt one after another

in rapid succession and caused heavy depression in prices. In the first place, there was a reaction against the high levels touched in December. In the second place, Government set itself against rising prices and started measures to control soaring prices. Proposals like the general prohibition of "futures" trading, registration of commission operators and trade associations were circulated among the commercial bodies by the Agricultural Marketing Adviser to the Government of India for the prohibition or control of futures markets and of speculation in agricultural produce.[1] In the third place, the publication of the Excess Profit Tax Bill on 27th January 1940 acted as a bear factor and led to a further drop in commodity prices. In the stock market the Tata ordinaries had heavily dropped from Rs. 427 to Rs. 345 and deferreds from Rs. 2,330 to Rs. 1,845 by the end of January. The happenings in the stock market had an echo in the commodity market. The following table shows the extent of decline in commodity prices in the month of January 1940 in the Bombay grain and oilseeds market :

Table II. *Fluctuations in Individual Commodity Prices.*

Week	Groundnuts						Linseed						Wheat					
	Feb. Waida.			May Waida			May Waida			Sept. Waida.			May Waida			Jan. Waida		
	Per Khandi.						Per Bengal Md.						Per cwt.					
	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
1-1-1940	41	15	0		..		9	7	9		..		5	0	0	4	5	0
8-1-1940	40	13	0		..		9	7	9		..		5	0	0	4	5	0
15-1-1940	40	7	0		..		9	5	6		.		4	13	0	4	2	9
22-1-1940	37	13	0	41	4	0	8	[illegible]	0		..		4	7	9	3	13	6
29-1-1940	36	13	0	40	1	0	7	9	3		..		4	4	0	3	12	0
1-2-1940	36	13	0	40	3	0	7	7	6		..		4	5	9		..	
8-2-1940	37	2	0	40	4	0	7	8	3				4	4	9		..	
15-2-1940	35	11	0	38	10	0	6	14	6		..		4	3	9		..	
22-2-1940	35	13	0	38	0	0	6	7	6	6	14	0	4	3	0		..	
29-2-1940		..		40	8	0	7	3	9	7	9	9	4	6	0		..	
1-3-1940		..		39	1	0	6	15	9	7	6	0	4	5	6		..	
8-3-1940		..		39	11	0	6	15	0	7	5	6	4	4	3		..	
15-3-1940		..		39	0	0	7	0	0	7	7	0	4	2	6		..	
29-3-1940		..		37	9	0	6	13	6	7	3	9	3	13	3		..	

1. *Commerce,* 13 Jan. 1940, p. 35.

Meanwhile the downward trend in prices which had set in since January became precipitous in April when Hitler began his victorious march from one country to another. The fall of Denmark, Norway, Belgium, Holland and France led to a collapse in prices in May and June. The fall in prices in the Bombay grain and oilseeds market in the months of May and June 1940 is indicated in the following table :

Table III. *Fluctuations in Individual Commodity Prices.*

Week.	Groundnuts		Linseed.		Wheat.	
	May Waida.	Sept. Waida.	May Waida.	Sept. Waida.	May Waida.	Sept. Waida.
	Per Khandi.		Per Bengal Md.		Per cwt.	
	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.
8-5-1940	40 0 0	42 10 0	7 5 9	7 12 9	3 14 6	4 1 9
15-5-1940	38 3 0	40 12 0	7 0 6	7 6 0	4 0 6	4 1 3
22-5-1940	35 0 0	37 0 0	6 4 3	6 9 3	3 11 9	3 13 9
29-5-1940	..	35 6 0	6 4 6	6 10 3	3 8 3	3 10 6
1-6-1940	..	36 4 0	6 9 3	..	..	3 11 6
8-6-1940	..	35 3 9	..	6 3 3	..	3 12 0
15-6-1940	..	34 9 0	..	6 0 6	..	3 12 3
22-6-1940	..	32 0 0	..	5 4 3	..	3 11 3
29-6-1940	..	30 1 0	..	5 3 0	..	3 11 9
1-7-1940	..	29 12 0	5 12 0	5 3 0	..	3 11 6
8-7-1940	..	30 11 0	6 1 6	5 7 9	..	3 14 0
22-7-1940	..	31 10 0	6 3 6	5 9 6	4 4 6	4 0 0
29-7-1940	..	30 8 0	6 1 3	5 7 0	4 5 0	4 0 6

The fall in prices was due to the closing of important markets on the Continent as a result of the German and Italian aggression. The serious lack of shipping space greatly diminished exports even to non-belligerents. Stoppage of exports of staple Indian commodities of which groundnuts and cotton were prominent continued to depress the markets. In April 1940, the Government of India imposed restrictions on the exports of linseed, castorseed and rapeseed to neutral countries with a view to conserve their supplies for the allies. This had a deleterious effect on the seeds market where the prices of seeds, particularly of the varieties affected, crashed. This is shown in Table No. III above. As it was feared that the ban would be eventually extended to all commodities, cotton, groundnuts, jute and other commodities also registered declines. Besides the fluctuating politics of the Far East caused serious concern at times not merely because of the excessive dependence of certain raw materials (like short staple cotton) on the Far East, but because of the great anxiety felt in India for the preservation of the 'Pacific route for the growing commerce with the United States. Between April and July 1940 the index number of wholesale price of primary commodities (19th August 1939 = 100) dropped from 124 to 112.

Fall in Prices (August 1940 to December 1940):

With the conspicuous exception of wheat which showed a steady rise, the downward trend in prices continued till the end of December 1940, as can be seen from Table IV below. In case of groundnuts and linseed subsequent to the exports having ceased to the neutral countries, foreign trade was confined to the orders of the Ministry of Food. Instead of the exports being made directly to different parties in London the new system was introduced after the War by which certain firms were allowed quotas to import from India. These parties placed their orders with the Indian shippers in proportion to their quotas. In India the distribution of these quotas was made in accordance with the volume of exports of the respective shippers during the three years before the war. Again the prices of purchase were fixed by the Ministry of Food and hence the groundnut and linseed prices could not show improvement.

Table IV. *Fluctuations in Individual Commodity Prices.*

Week.	Groundnuts	Linseed.		Wheat.		
	Feb. Waida.	May Waida.	Sept. Waida.	May Waida.	Sept. Waida.	Jan. Waida.
	Per Khandi.	Per Bengal Md.		Per cwt.		
	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p
8-8-1940	30 6 0	5 11 6	5 3 0	4 2 9	3 15 9	4 1 9
15-8-1940	28 3 0	5 9 0	5 3 0	3 14 6	3 13 6	3 14 9
22-8-1940	27 3 0	5 2 6	4 9 6	3 12 6	3 14 0	3 14 3
9-9-1940	28 7 0	5 13 0	5 6 0	3 13 6	3 14 6	3 14 9
16-9-1940	29 3 0	5 12 6	5 8 3	3 14 3	4 1 0	3 15 6
22-9-1940	28 13 0	5 14 3	5 9 0	3 14 9	3 15 9	4 0 9
30-9-1940	28 1 0	5 10 6	5 5 6	3 15 6	4 1 0	4 2 0
1-10-1940	28 3 0	5 10 6	..	3 15 6	..	4 1 9
8-10-1940	28 11 0	5 11 0	..	4 1 0	..	4 1 3
15-10-1940	28 12 0	5 8 9	..	4 1 3	..	4 2 3
22-10-1940	28 6 0	5 6 0	..	4 1 0	..	4 2 0
8-11-1940	27 3 0	5 7 0	..	4 3 0	..	4 4 6
15-11-1940	..	5 6 6	..	4 2 9	..	4 5 6
29-11-1940	28 7 0	5 10 9	..	4 7 3	..	4 10 9
9-12-1940	27 3 0	5 10 9	..	4 4 3	..	4 9 6
16-12-1940	27 3 0	5 4 0	..	4 4 6	..	4 10 3
23-12-1940	26 3 0	5 3 3	..	4 2 3	..	4 9 3
30-12-1940	25 10 0	5 0 6	..	4 0 3	..	4 6 6

Three important factors led to the bullish tendency during this period in wheat. In the first place, there was an increase in domestic consumption of raw materials due to purchases by the War Supply Department of the Government of India. Secondly, the loss of export trade due to closure of European markets was being partially made up by increased exports to Empire countries. The third factor was the measures taken by the Central and Provincial Governments to help the primary producers, i.e., the introduction of the scheme of war-risk insurance which at once allayed the fears of the market regarding the safety of trade stocks, the relaxation of the restrictions of the export of oilseeds to neutral countries, the despatch of an exploratory mission to the United States, the evolution of a scheme for further extending the chain of Trade Commissioners and the

setting up of a fund for the relief of groundnut cultivators which restored the stability of the market.

While wheat tended to outstrip the general advance, commodities like jute, groundnuts, linseed, and sugar lagged behind, being handicapped by heavy surpluses. The pressure of winter crop arrivals and the comparatively small size of the orders being received from overseas were mainly responsible for the weakness of the market especially in case of groundnut and linseed. The quotation for Bombay Bold linseed came down steadily from Rs. 5-10-9 per cwt. on the 29th November to Rs. 5-0-6 on the 30th December, while that for groundnuts fell from Rs. 28-7 to Rs. 25-10 per khandi. Thus in case of groundnuts and in linseed the problem of surplus remained particularly serious in view of the fact that these commodities were mainly dependent upon exports for the maintenance of prices. Moreover, it was not easy for the producers of groundnuts and linseed to turn to other crops.

The Problem of "Surplus Commodities."

In order to solve this problem of "surplus commodities", the Government of India in September 1940, came to an agreement with the British Ministry of Food in regard to the purchase of Indian linseed and groundnuts. His Majesty's Government agreed to purchase linseed and groundnuts at a price not below £12-10 and £10 per ton f.o.b. respectively, the rupee equivalent of the price being paid at current rate of exchange. The announcement served temporarily to check the decline in prices, but as the British purchases were necessarily governed by the shipping situation and as they could hardly be on a scale sufficient to counteract the effects of heavy crop arrivals, the market prices of groundnut could not catch up the basic prices fixed by the Ministry of Food. In fact in November and December when the winter crop came into full swing, market prices dropped heavily, while the prices paid by the Ministry of Food remained unchanged. This naturally led to a widening of the profit margin received by shippers. The Ministry of Food decided, at the request of the Government of India, to adhere to their buying price. The difference between the buying price and the prices actually paid by the shippers to sellers was to be credited to a special fund to be used for the benefit of the cultivators. On the 20th February 1941, a conference was held in New Delhi between the representatives of the Government of India and those of Madras, Bombay and Hydera-

bad States to discuss the details of the proposal. The conference decided against compulsory restriction of output and advised in favour of propaganda directed towards a reduction of acreage. It was therefore decided that the most suitable method of helping the cultivator was to encourage the consumption of the crop partly by propaganda, drawing attention to the use of groundnut oil as an illuminant, and partly by increasing consumption of groundnut cake as cattle food and manure. The Government agreed to contribute on an equal basis towards this fund and it was also decided that a small committee should be constituted for the purpose of assisting the scheme. Other efforts to solve the general problem of oilseeds included the various schemes initiated by the Board of Scientific and Industrial Research for exploring the possibilities of industrial utilisation of vegetable oils.

The advent of 1941 started a slump in prices in the Bombay market, as can be seen from the following table :

Table V. *Fluctuations in Individual Commodity Prices.*

Week.	Groundnuts. Feb. Waida.	Groundnuts. May Waida	Linseed. May Waida	Wheat May Waida	Wheat *Jan.* Waida.
	Per Khandi Rs. a. p.	Per Khandi Rs. a. p.	Per Bengal Md Rs. a. p.	Per cwt. Rs. a. p.	Per cwt. Rs. a. p.
9-12-1940	27 3 0	..	5 10 9	4 4 3	4 9 6
16-12-1940	27 3 0	..	5 4 0	4 4 6	4 10 3
23-12-1940	26 3 0	..	5 3 3	4 2 3	4 9 3
30-12-1940	25 10 0	..	5 0 6	4 0 3	4 6 6
1-1-1941	25 15 0	..	..	..	4 7 3
8-1-1941	25 15 0	26 1 0	5 2 0	3 14 9	..
15-1-1941	26 1 0	26 10 0	5 1 9	4 1 0	..
22-1-1941	26 6 0	27 0 0	4 15 6	3 14 3	..
1-2-1941	26 7 0	27 3 0	4 15 9	3 13 6	..
8-2-1941	..		..	..	..
15-2-1941	25 9 0	26 8 0	4 11 6	3 11 9	..
22-2-1941	26 2 0	26 5 0	4 12 0	3 11 0	..
28-2-1941	..	26 6 0	4 12 0	3 9 6	

As regards linseed the market ruled extremely weak. Stock-holders who had hitherto shown considerable reserve were now anxious to dispose of their stocks but the shippers were not interested as the demand from the United Kingdom was very poor. The slump in the groundnut market continued and a further fall was recorded in the month of February. The prices of wheat also showed a declining tendency from Rs. 4-1-0 on the 15th January to Rs. 3-11-0 on 22nd February.

The drop in linseed prices recorded in the previous month was completely made up during March and prices for linseed Bold in Bombay rose sharply by successive stages from Rs. 4-14-6 per cwt. on 1st March to Rs. 5-8-6 on 29th. Demand for linseed was very satisfactory and consequently mills were anxious to secure an adequate stock of the raw material. The prices in the groundnut market in this month were also rising. On 29th March 1941, the Bombay Bold variety of groundnuts was quoted at Rs. 32-6 per khandi as compared to Rs. 27-2 on the 1st March, an increase of 17%. The difference between the fixed price of £10 per ton f.o.b. Indian ports, paid by the Ministry of Food and the ruling market price was thus narrowed and consequently, the rebate paid by the shippers as the contribution to the fund for helping the groundnut producers was reduced. Indeed the recovery in groundnut prices was partly due to the psychological effect of the Government's action in instituting this fund and announcing their decision to take measures for increasing the internal consumption of groundnuts and groundnut products. The buying operations of the Ministry of Food also played a large part in the rise of groundnut prices while the increased demand for groundnut from Burma, Hongkong and Straits Settlements and the remarkable steadiness of the groundnut oil were important contributing factors.

The following table gives fluctuations in individual commodity prices for the months of April, May and June 1941 :—

Table VI. *Fluctuations in Individual Commodity Prices.*

Week.	Groundnuts. August Waida Per Khandi.	Linseed. May Waida. Per Bengal Md.	Wheat. Sept. Waida. Per cwt.
	Rs. a. p.	Rs. a. p.	Rs. a. p.
8-4-1941	30 10 0	5 2 6	4 0 6
15-4-1941	30 12 0	5 2 9	4 2 0
22-4-1941	29 11 0	4 15 9	4 1 3
29-4-1941	28 10 0	4 14 6	3 15 0
1-5-1941	29 4 0	4 15 6	4 0 3
8-5-1941	28 15 0	5 1 0	4 0 6
15-5-1941	30 6 0	5 3 3	4 1 9
22-5-1941	30 14 0		4 3 0
8-6-1941	30 10 0	5 10 6	4 5 0
15-6-1941	29 15 0	5 12 9	4 6 9
22-6-1941	31 3 0	5 15 0	4 8 0
29-6-1941	30 12 0	5 14 6	4 7 3

A steady increase in the new crop arrivals brought about a reversal in linseed prices and the quotation for the Bombay Bold variety which had risen from Rs. 4-14-6 to Rs. 5-8-9 per cwt. between the 1st and 29th March came down to Rs. 4-14-6 on 29th April. Generally speaking the market showed a distinctly bearish trend in case of linseed during April 1943. In the Bombay market the price of groundnut Bold, which had risen to Rs. 32-6 per khandi towards the close of March declined to Rs. 28-10 on 29th April. The report that the groundnut kernel and groundnut oil exported from India to Burma were likely to be subjected to an import duty of 10% and 15% respectively also had an adverse effect on the market. In the wheat market the prices were steady during April, May but in June the prices began to rise from Rs. 4-5-0 on 8th June to Rs. 4-7-3 on 29th June. The linseed prices in the month of May and June were steadily rising from Rs. 4-15-6 on 1st May to Rs. 5-14-6 on 29th

June. The groundnut market in the same period was remarkably firm.

The prices in the months of July, August and September are given in Table VII below :

Table VII. *Fluctuations in Individual Commodity Prices.*

Week.	Groundnuts. Feb. Waida. Per Khandi.	Linseed. May Waida. Per Bengal Md.	Wheat. Sept. Waida. Per cwt.
	Rs. a. p.	Rs. a. p.	Rs. a. p.
8-7-1941	32 15 0	..	..
15-7-1941	36 3 0	8 11 6	5 4 0
22-7-1941	41 12 0	9 9 0	6 12 0
1-8-1941	41 2 0	..	..
8-8-1941	..	..	..
15-8-1941	..	9 6 9	..
29-8-1941	50 8 0	9 14 3	6 10 6
1-9-1941	49 7 0	9 13 9	6 11 9
8-9-1941	45 2 0	9 6 0	7 1 6
15-9-1941	44 10 0	9 2 3	6 12 0
22-9-1941	41 7 0	8 9 6	6 8 0
29-9-1941	40 6 0	8 6 0	6 3 3

The prices of groundnuts began to show a rise from Rs. 32-15 per khandi on 8th July 1941 to Rs 41-12 per khandi on 22nd July.

The rise in prices was due to speculative activity which originated with violent fluctuations in raw cotton prices and was due to eratic behaviour of the monsoon in Hyderabad and certain parts of the Bombay Province. In the month of August in case of groundnuts there was demand both from millers as well as shippers. The Ministry of Food was also greatly interested in the commodity and large purchases were reported during the first fortnight of the month. The most outstanding feature of the groundnut market at Bombay in the month of September was the falling off of demand and resulting decline in prices from Rs. 49-7 per khandi on 1st September to Rs 40-6 per khandi on 29th September.

In sympathy with other commodity markets the linseed market at Bombay ruled firm throughout the months of July and August. The favourable stock position brought about by reduction of new arrivals and the uncertainty of the monsoon were chiefly responsible for this improvement. A little fall in linseed prices was noticeable in the month of September, but much of this was seasonal.

The wheat market at Bombay was steady in July and August. The announcement of the Third Price Control Conference to be held at New Delhi in October and the reduction of import duty on wheat to a nominal figure produced a salutary effect on the market and prices. On 30th September, the Government of India announced its decision to reduce the import duty on wheat from Re. 1-8 per cwt. to that of two annas per cwt

It now remains to consider the prices in the last three months of 1941, which are given in Table VIII.

Table VIII. *Fluctuations of Individual Commodity Prices.*

Week.	Groundnuts. Feb. Waida. Per Khandi.	Linseed. May Waida. Per Bengal Md.	Wheat. May Waida. Per cwt.
	Rs. a. p.	Rs. a. p.	Rs. a. p.
1-10-1941	41 0 0	8 8 0	6 5 3
8-10-1941	40 13 0	8 8 3	6 7 0
15-10-1941	41 6 0	8 7 9	7 6 6
22-10-1941	41 12 0	8 8 3	6 11 0
29-10-1941	41 10 0	8 9 6	6 12 0
1-11-1941	41 6 0	8 9 6	6 11 0
8-11-1941	44 11 0	8 14 6	6 13 3
15-11-1941	44 8 0	9 0 6	5 15 6
22-11-1941	44 10 0	9 5 9	6 15 9
29-11-1941	44 14 0	9 4 9	7 0 9
1-12-1941	45 8 0	9 6 6	7 2 3
8-12-1941	44 12 0	9 4 6	7 2 9
15-12-1941	..	9 0 6	7 4 6

Thus from the above table we see that in October the wheat market at Bombay maintained an upward tendency In spite of the

fact that the Government of India were actively engaged in devising measures of price control, the statistical position of wheat was regarded to be so strong that speculators with bullish tendency completely dominated the market. As regards linseed, the market showed a steady rise in price quotations and the groundnuts market at Bombay showed a steady revival, the prices which had fallen to Rs. 41 on 1st October 1941 gradually rising to Rs. 44-12 on 8th December 1941. In November, there was a substantial increase in the price of raw cotton, wheat groundnuts and linseed in the Bombay market. As regards wheat the price rose from Rs. 8-14-6 per cwt. on 8th November 1941 to Rs. 9-5-9 on 22nd November 1941. Thus there was a sharp advance in case of wheat.

With the entry of Japan into war, in December 1941, there were panic conditions in all the markets in India. In sympathy with the weakness in other markets, oilseeds prices in Bombay also recorded declines.

Depression in Commodity Prices :

The war in the Far East and the hostile action against India exerted a depressing influence on the commodity markets during the year 1942. The fall of Singapore and the Japanese occupation of some parts of the East Indies exerted a depressing influence in the first two months of 1942 as can be seen from the following table :

Table IX. *Fluctuations in Individual Commodity Prices.*

Week.	Groundnuts. Feb. Waida. Per Khandi.	Linseed. May Waida. Per Bengal Md.	Wheat. May Waida. Per cwt.
	Rs. a. p.	Rs. a. p.	Rs. a. p.
1-1-1942	43 7 6	9 4 6	7 0 9
8-1-1942	45 7 6	9 4 9	6 14 6
15-1-1942	44 0 0	9 3 0	6 15 6
22-1-1942	42 4 6	9 0 0	6 15 0
29-1-1942	44 14 6	9 3 3	6 13 6
1-2-1942	..	9 2 9	6 14 6
8-2-1942	44 0 0	9 1 3	7 1 0
15-2-1942	..	..	..
22-2-1942	..	8 15 6	7 3 0
29-2-1942	43 8 0	9 0 3	7 3 9

The Fourth Price Control Conference was held on February 6 and 7, 1942. It was recognised at this Conference, that the distribution of the available stocks in the most efficient way should take precedence over control of prices ; and in view of the limited transport facilities available, the attainment of this objective was quite a serious problem. The effect of price control had only led to the appearance of 'black markets' everywhere ; and these markets could be checked only by proper distribution of the stocks quickly and in effective quantities.

After the Fifth Price Control Conference in April 1942 the immediate reaction in the Bombay Grain and Oilseeds Market was seen in the attempt at "Corners" in the May delivery. Two such attempts were made in the wheat and groundnut trade in the Bombay market. The merchants who knew that it was not possible for the sellers to deliver goods in the May delivery went on covering the goods (in wheat and groundnuts). However, the "corner" in groundnut was avoided by making wagons available for bringing groundnut to the market. In the case of wheat the Government intervened and allowed the parties concerned to deliver outstanding contracts in wheat in the next delivery period.

With the entry of Japan into war, the prices of wheat were controlled. The Punjab and Sind are the largest areas of wheat surplus. They did not take to this effort kindly and efforts were made by men in position not to sell wheat at controlled rates. The result was that the stocks of wheat went underground or went to Indian States where Price Control Order was not effective. So in consequence there was an acute shortage of wheat in the deficit areas particularly like Bombay. The Government of India came with an elaborate Wheat Control Order on 30th April 1942, with the result that it prescribed ceiling rates for wheat. It also controlled the inter-provincial movement by rail and water. It also prohibited "future's" trade in wheat. So in consequence the future's market in wheat was closed completely and the position continues even now.

Since the other foodgrains were equally perhaps not important than wheat were also considered essential to be controlled by the Central Government and by 1943 came out the Basic Plan for controlling certain cereals. Under the Basis Plan the prices and movements from surplus to deficit areas have been controlled. Under this plan, it also resulted in Government setting up its own agency for

procurement and distribution which considerably facilitated introduction and continuation of food rationing.

In the second half of 1942, the grain and oilseeds markets in Bombay were closed due to the arrest of Mahatma Gandhi and the Members of the All-India Congress Working Committee on 9th August 1942. There was internal political unrest in the country. This affected the working of the markets. The Bombay grain and oilseeds markets had to experience very difficult times. The markets remained generally closed except for a few days at intervals when they reopened for settlement purposes. Thus the forward trading in linseed and groundnuts came to a standstill. The most interesting development in the Bombay market was, however, the amendment of the futures contract in groundnuts by the Seeds Traders' Association which enabled other varieties of groundnuts, such as Khandesh and Madras qualities, tenderable besides Bombay Bold, adequate supplies of which were not available owing to transport difficulties. Option business in groundnuts, which remained suspended as a protest against the arrest of Congress leaders since August 1942 was resumed on December 17, 1942.

To sum up, the markets in groundnuts, linseed and wheat all showed a bullish tendency, with a steady rise in prices, during the first few months of the war, i.e. till December 1939, partly as a result of increased demand and also speculative activity. With the advent of 1940, however, the prices showed a tendency to fall. Reverses in the war had shaken the confidence of traders, and the submarine menace rendered exports extremely risky. Towards the end of July 1940, the prices of wheat showed a revival, consequent upon an increase in demand in the internal market ; and this continued till the end of that year. In the case of groundnut and linseed, the reduction in exports led to the accumulation of surplus stocks within the country, which exerted a downward pull on the prices throughout the year. This excess of supply over demand was gradually reduced during 1941 as a result of an increase in the demand for groundnuts and linseed by the Ministry of Food in England and for wheat by the Supply Department of the Government of India. In the meanwhile the inflation of currency led to higher prices all round. These expectations of recovery received a set back with the entry of Japan into the war. The growing uncertainty towards the end of 1941 led to a dislocation of prices later on, especially in the early months of 1942.

From the above survey, it appears that the main factors affecting prices during War time may be divided into two types (a) primary and (b) secondary.

(a) *Primary Factors.*

(i) Increase in demand for war purposes ;
(ii) The transport situation ;
(iii) Absence of exports to normal channels ;
(iv) The element of added risk.

(b) *Secondary Factors.*

(i) Legislative measures in regard to control of prices ;
(ii) Contraction of Teji-Mandi business ;
(iii) Uncertainty and absence of reliable data in regard to possible future trends on account of fast changing war events;
(iv) Sentiments and psychology of the operators.

These different factors have governed the fluctuations in prices during the last three years and more, the relative importance of some of these being greater at one time than at another. All this must, therefore, mean an upsetting of the normal work of the exchanges in question.

It is in this light that we can justify the various bans and restrictions imposed on futures trading during the war period. It is already stated that in May 1942, the Government of India prohibited futures trading in wheat. This measure was necessary as an integral part of their price control policy. The dealings in groundnuts and linseed were allowed to continue unchecked until 30th May 1943, when it was found that the prices of these commodities were going up abnormally. Forward contracts in groundnuts, linseed, mustard seed, rapeseed and tora seed in British India were prohibited from 31st May 1943, while forward dealings in cottonseed, castorseed and sesamum were banned from 6th September 1943 under the Oilseeds Forward Contracts Prohibition Order, 1943, and its subsequent amendments. Futures trading in vegetable oils, such as groundnut oil, linseed oil, mustard oil, rapeseed oil, castor oil, castorseed oil, and coconut oil, and in the corresponding varieties of oilcakes, was prohibited by a notification issued by the Government of India on the 18th January 1944. Futures trading ceased with effect from the close of business on the 12th instant giving thereby about five days' time for traders voluntarily to liquidate all their outstanding con-

tracts failing which they were to be closed by the Government at such rates as they deemed fit. Under all these orders delivery contracts were permitted. Under present arrangement, the prices of groundnuts and linseed depend upon the purchases made by the Ministry of Food in England, as the United Kingdom is the main buyer of Indian linseed and groundnuts. Except owing to famine conditions existing in certain parts of India to consume as much supply of food as possible the Government of India temporarily stopped all exports of groundnuts. It would be difficult to judge at this date the full repercussions of these bans and control measures not only on the commodity markets but also on the entire machinery of production and distribution.

On the 27th May 1943, the Government of India fixed floor and ceiling prices of cotton to protect the growers from fluctuations in prices. This they had to do because of the loss of the Japanese market as it used to take a bulk of shortstaple cotton from India. When prices tend to fall below the floor prices the Government intervenes and buys with a view to see that the market price does not go below floor prices. In the subsequent years, the various Provincial Governments took measures to control area under cotton and other non-food crops. These measures served in reducing the volume of cotton and these legislations and restrictions were particularly directed to areas of short staple cotton of which there was a large surplus. The growing of foodgrains was subscribed by many Governments. The controlled rates for foodgrains were satisfactory. In several areas, it paid farmers to grow foodgrains than cotton. This has certainly given a relief to the problem of surplus of cotton.

The main question that arires is whether intelligent speculation is at all practicable. Supply as well as demand become uncertain and unstable, and there is obviously little possibility of forecasting the type and extent of intervention or control by Government. This uncertainty was further accentuated by reports regarding the progress of the War and the operation of other psychological factors. In the light of what we have said in the chapter on the theory of speculative prices, it appears that all these factors would mean a very high elasticity of expectations with the consequent destabilising effect of speculative activity on prices. The speculators have then to forecast only short period changes in supply and demand conditions; the real long-term factors which in normal times act as a corrective after a certain stage fail to come into play at all, and there is always

the danger that uncontrolled speculation may degenerate into gambling.

Besides restrictions imposed in certain important ready markets regarding disposal, storing and arrivals of goods paralysed the forward market which as a consequence ceased to function for hedging purposes.

During war the restrictions imposed on the commodity markets have a salutary effect in checking undesirable speculation. All the same it has adversely affected stockists and manufacturers from hedging their commitments. These people therefore have to carry large stocks and responsibility both, with the object of fulfilling responsibilities which naturally increases increased operational costs.

Very often the stocks in the terminal markets are low largely due to the transport difficulties. The stockists and the manufacturers have to make purchases at high prices from the ready market actually to cover themselves against commitments. But at the same time stocks increase at the primary market. The demand is low and the prices in consequence are also low. The result is that great disparity exists between terminal and primary markets. The result is that the producers do not get advantage of high prices in the terminal markets. If, therefore, hedging is permitted it would result in lower operational costs and better equalization of prices between the terminal and primary markets.

The question, however, is to decide as to who are going to be genuine hedge contractors or who are speculators gambling on marginal money. In the organised and well-controlled produce exchanges it should not be difficult to find out genuine hedgers and speculators. It is very easy to find out from the list of transactions settled by parties on well organised exchanges like those of Bombay, Karachi, Hapur or Calcutta. Due to the present control of the commodity exchanges genuine hedgers have been hardly hit. They are actually the people in power in the organization of commodity exchanges.

Up-to-day, all exchanges and private trade have ruthlessly opposed statutory control and regulation. During the wartime controls, however, have convinced these exchanges about the desirability of prohibiting speculation. These very exchanges, however, are exceedingly anxious that genuine 'hedging' be permitted and with that object of genuine hedge in view the exchanges have represented the Government of India to permit them to resume 'hedge contract'

under any suitable statutory rules and regulations which would allow genuine hedging but no speculation.

Considering that futures markets are essential for stabilising prices, considering further that the leading exchanges have themselves come forward with suggestions for control and taking into account the public demand for killing speculation, it is an excellent opportunity which any Government should take for reorganising and regulating the futures trading in this country.

There seems to be an apprehension that permitting hedge may adversely affect the Government policy of checking 'inflation.' At the same time it is emphasised that no definite proof is forthcoming to support such apprehension. It is hoped, therefore, that the Government would reconsider its attitude and not lose this opportunity in putting the futures trading of this country on proper lines.

CHAPTER XI

COMMODITY EXCHANGES AND THE STATE

The Problem :

WE now take up the question, whether or not the Government should exercise some sort of control on the exchanges. In view of what we have said regarding the functions and services of commodity exchanges, it is clear that they have a vital role to play in the working of the system of free enterprise by bringing together buyers and sellers from different regions and equalising the demands and supplies over a period of time. These exchanges have grown in response to a definite need of the present system of production and distribution, and behind the rules and regulations evolved by some of the highly organised exchanges there is the experience of generations. The problem of regulation is, therefore, to provide against possible abuses without destroying the vitality and unduly limiting the scope of these organisations.

Abuses of Uncontrolled Speculation :

Speculative trading is subject to certain abuses which should be remedied. It is possible that speculators trade in futures on the basis of wrong or insufficient information. Even when they have more than average foresight they may not act with a view to stabilize prices. They may on the other hand try to increase their profits by keeping this knowledge secret. Again there is always the possibility of speculative activity becoming just a gambling in futures. The volume of speculation being a function of the state of expectations on the market, there may not be any correlation between the stocks of the commodity available in the spot market, and the volume of trade in future. All these lead to a destabilising influence on prices, as N. Kaldor[1] has pointed out, within a particular range. When this range is wide the effect of speculative activity will be harmful to the community. It is then that the need for interference arises.

1. See Chapter VIII, p. 162.

(a) *Mushroom Bodies* :—We have referred in Chapter II[2] to the mushroom growth of exchanges in the Punjab, which undertake the business of futures trading in agricultural produce and only encourage reckless speculation and gambling. This is largely due to the fact that the bodies concerned are themselves engaged in the business as companies trading for profit and not as non-profit sharing associations of merchants, brokers and others designed solely to govern and regulate the business in the interests of all concerned. They have no financial stability and there are hardly any well-defined rules to govern their transactions. Defaults and bankruptcies by members are by no means uncommon and the result is clear abuse of the privilege of free enterprise and freedom of association. Outside brokers and operators make use of those markets, e.g. Arhtyas in Delhi operate in Hapur, in Calcutta for linseed and in Bombay for cotton. At present no control is exercised over those outside operators many of whom are men of small means. Some steps are necessary to keep track of such parties by registration and ensure their financial stability.

(b) *Lack of coordination between futures markets* :—Some futures markets like Karachi and Calcutta are persistently bearish in tendency and depress producer's prices at harvest time.[3] Others like Amritsar, Lyallpur, Okara and Hapur are not so but their influence cannot be brought to bear on other markets in the U. P. and Punjab owing to variations in the form of contracts, terms of delivery and general practice of market concerned. There is therefore a necessity for ensuring that the bye-laws of all the associations should incorporate a standard form of contract and observe uniformity in practice so far as possible.

(c) *Manipulations, Corners, etc.* : It is well known that there are possibilities of manipulations, corners, etc., on exchanges which have a detrimental effect on the trade as a whole and may prevent intelligent speculation altogether.

2. See Chapter II, p. 29.

3. Cf. "The natural tendency of Karachi merchants to get the price of Indian wheat down to export parity every year seems a factor in bringing about the "bearish" position on the July "future". Similarly the anxiety of the Calcutta buyers to purchase wheat cheaply at harvest time seems to affect the May "future" there." Report on the marketing of wheat in India, p. 106.

The harmful effects of speculation lie mainly in (a) wide divergence between futures and ready prices at settlement date which makes it impossible for buyers and sellers of the actual goods to use the market for hedging purposes so that it fails to fulfil its legitimate function[4] and (b) large daily fluctuations in prices which affect the producer's prices. Under such conditions buyers withdraw their up-country buying limits. At the same time others find it possible to buy more cheaply from producers while continuing to sell the actual goods at a higher price. This excessive speculation in many cases is due to jobbing in small lots (i.e. while there is a standard unit of trading in each of the various commodities, several of the exchanges make provision for trading in smaller quantities), and to short-term (daily or weekly) option (teji-mandi) business of the type of gambling which needs to be brought under control.

(d) *Bucket Shops* :—Another drawback of unregulated commodity exchanges found in India is the starting of bucket shops.[5] These bucket shops are institutions functioning irresponsibly, their sole object being usually to pocket the margin money and to make as much profit as possible out of the difference in prices. They do not get themselves affiliated to any of the trade bodies. These shops exist to enable persons of small means to speculate on the system of taking orders, making payments, etc. which cannot be enforced in law. According to the Report on Fairs, Markets, and Produce Exchanges in India, the position in Bombay city of these bucket shops, where there are, it is reported some two hundred establishments of this kind, is somewhat curious. These firms operate under the *pakki adat* system of transactions, the principles of law underlying which, according to the usage of Bombay, entitle the commission agent, among other things, (i) to substitute his own contract in fulfilment of an order from his upcountry customer so as to constitute himself the buyer or the seller as the case may be in respect of the order and (ii) offset against the sale order of one customer an order to purchase received from another. These terms and conditions which have the sanction of many precedents established in the courts of law at Bombay epitomise the bucket shop principle. It is hardly surprising,

4. Report on Fairs, Markets and Produce Exchanges in India, p. 81.

5. "Bucket shops are illegal gambling places where bets are made on futures prices without any actual goods being bought and sold." Converse and Huegy, *Elements of Marketing*, p. 236.

therefore, that Bombay is probably the largest single market in India catering for this type of business which needs to be brought under control.

For all these reasons it is necessary to enact all-India legislation in order to control the growth of inadequately organised exchanges and to prevent the establishment of irresponsible mushroom exchanges as in Northern India.

Regulation of Organised Commodity Markets in the U.S.A. :

In this connection, we may note the attempt at regulation of commodity exchanges in the U.S.A. The Commodity Exchanges Act was passed by the U.S.A. Congress in 1922, when it was felt that interstate commerce did not observe rules and regulations and there was no guarantee to a mofussil party that his business would be done by his agents conscientiously and in a straightforward manner. The amount placed as margin or deposit, it was found, was utilised by the agents in their own interest. Unfair advantage was taken of customers in executing orders either for the broker's personal gain or for the benefit of other favoured customers. Further there was no proper recording of transactions which would safeguard the interests of the several parties concerned as well as regulate the relations between different states and the trading community. There were many opportunities for manipulation of prices. This took many forms such as wash sales,[6] trading on a large scale, cornering or squeezing, or spreading of false or misleading reports about the weather, crop conditions, etc., for the purpose of influencing prices. Because of the existence of such conditions and because futures trading transcended state boundaries, the U.S.A. Congress found that Federal regulation of the type of Commodity Exchanges Act was essential.

Main Provisions of the Commodity Exchanges Act : This Act[7] was a supplement to the Cotton Futures Act under which the cotton futures markets of the U.S.A. were functioning since 1916 and the grain markets were functioning since 1906. The Commodity Ex-

6. "These are fictitious transactions, in which one broker arranges to sell to another at an artificially high price." J. G. Smith, *Organised Produce Markets*, p. 111.

7. Section references herein are to the Commodity Exchange Act, as amended on 15th June 1936.

change Act provides for the regulation of futures trading on the commodity exchanges which conducted such trading in several principal agricultural commodities such as, wheat, corn, oats, rye, barley, flaxseed, butter, eggs, potatoes, etc.

(a) *Conditions for designation* : A commodity exchange desiring to conduct futures trading must under this Act satisfy the following conditions :

It must be located at a terminal place where a sufficient volume of commodity is bought and sold, and where sufficient inspection service is available, or it must provide for delivery at such a location. It must maintain adequate records of transactions and these records must be available for inspection by the Secretary of Agriculture (Sec. 5(*a*)).

It must provide against the dissemination of false or misleading or knowingly inaccurate information by the contract market or its members and must prevent manipulation of prices or the cornering of any commodity on the market. (Sec. 5(*c*)), (Sec. 5(*d*)). It must admit to membership any cooperative association of producers desiring to join or otherwise qualified for membership (Sec. 5(*e*)). Besides it must be designated as " contract market " by the Secretary of Agriculture. (Secs. 4 and 5).

(b) *Contract Markets* : Under the Act, it is unlawful for any person to make or enter into any contract of sale for future delivery on or subject to the rule of any board of trade[8] in the United States, of any of the commodities covered by the Act unless such contract is made by or through a member of a board of trade that has been designated by the Secretary of Agriculture as a contract market. It is unlawful also to transmit through the mails or in interstate commerce any offer to make such contract or any confirmation of such contract or to transmit any quotation or report of the price involved in such contract unless made by or through a member of a board of trade which has been designated as a contract market. A further requirement is that contracts of sale for future delivery must be evidenced by a record in writing showing the date, the parties thereto and their addresses ; the property cover-

8. By " Board of trade " is meant " any exchange or association, whether incorporated or unincorporated, of persons who shall be engaged in the business of buying or selling any commodity or receiving the same for sale on consignment." Commodity Exchange Act as amended, p. 2.

red and its price and terms of delivery. This record must be preserved for a period of three years, or for a longer period if so required by the Secretary of Agriculture. Such record must be kept open for inspection by representatives of the United States Departments of Agriculture and Justice. (Sec. 4).

(c) *Additional Requirements* : Additional duties and obligations imposed upon contract markets by June 15, 1936 amendments are as follows :

Each contract market must promptly furnish the Secretary of Agriculture copies of all bye-laws, rules, regulations and resolutions made or issued by it, or governing board thereof, or any committee, and of all changes and proposed changes therein. (New) (Sec. 5(a)(1)).

When so directed by the Secretary of Agriculture each contract market must provide for a period, after trading for future delivery in any delivery month has ceased, in which to make settlement of delivery. Such period may not be less than three, or more than ten business days, to be fixed by the Secretary of Agriculture after notice and hearing if he finds this is necessary to prevent squeezes and market congestion (New) (Sec. 5(a)(4)).

(d) *Registration of Future Commission Merchants and Floor Brokers* : All future commission merchants and floor brokers must register with the Secretary of Agriculture, furnish current financial statements, maintain books and records in the manner prescribed and permit examination of those books and records upon his request. In such matters the Secretary of Agriculture operates through the commodity exchange administration which is a bureau in the Department of Agriculture.

(e) *Protection of Customer's Margin Moneys* : Those who trade on the futures markets are required to deposit funds to guarantee the fulfilment of the obligations into which they enter. The funds so deposited are known as customer's margin. The Commodity Exchange Act requires the futures commission merchant receiving such funds to account for them separately. He may not use them for his own purpose nor may he use the funds of the customer to margin the trades of another.

Commission merchants are authorized to withdraw and apply such portions of customer's margin moneys as are necessary in the

normal course of business to margin, guarantee, secure, transfer, adjust, or settle the contracts or trades of customers or resulting market positions with any member or with the clearing house organization of a market, and may also withdraw and apply margin moneys to the payment of commissions, brokerage, interest, taxes, storage and other charges lawfully accruing in connection with the contracts and trades of customers. The purpose of the above described margin provisions is to preserve and hold intact for customers all moneys, securities and property deposited by them to guarantee trades and to prevent their being used for any other purpose. Observance of these provisions is enforced by a staff of auditors employed by the Commodity Exchange Administration.

(f) *Limitations upon Trading* : The Commodity Exchange Act makes manipulation of prices, or cornering of a commodity on a contract market illegal. To prevent large operators from dominating the market through excessive speculation the commodity exchange commission, consisting of the Secretary of Agriculture, the Secretary of Commerce, and the Attorney General, may fix limits on the size of speculative trading that may be done by any person during any one business day and upon the amount of speculative net position, long or short, that may be had by any person at any time. The limits affect only speculative trading and speculative positions. Hedging transactions are specifically exempted and the commission may exempt also transactions known as spreads or straddles.

The commission is given wide discretion in the matter of fixing trading limits when, after notice and hearing, it appears that such limits are necessary to prevent excessive speculation constituting an undue and unnecessary burden upon interstate commerce in any commodity. The commission may fix different trading limits for different commodities, markets, futures, and delivery months and may fix different trading limits for buying and selling operations. The limits on daily trading may differ from those fixed for net position.

(g) *Unlawful Transactions and Practices* : Other provisions for the protection of the public and maintenance of free and open markets make illegal the cheating or defrauding of any person trading on a contract market. Wash sales, cross-trades, privileges, and accommodation trades are also prohibited.

Working of the Commodity Exchange Act.

The result of this regulation has been on the whole satisfactory. The Act has put the entire marketing of agricultural commodity on such secure foundations that "hedge selling" has little of gambling in it. There are still minor defects in the Act. Although the Act requires that limitations be established and enforced on speculative transactions in all commodities, it has only been possible so far to establish limitations on speculative grain-futures transactions. The commodity exchange administration have centred attention almost entirely upon the futures markets to the neglect of the trade in the actual physical commodities.[9]

Method of Control :

Coming now to the problem of the regulation of produce exchanges in India in the light of the above experience, it appears that such regulation may be effected in three ways : (a) control may be placed on the starting of new exchanges ; (b) control can be applied to the rules and regulations ; and (c) lastly control can be put into effect under certain circumstance as regards the prices.

(a) Control as regards the setting up of new exchanges has not received the attention which it so seriously deserves. In India at present an exchange can be opened at any place which claims to be a business centre. A number of exchanges can be pointed out which have thus grown up and whose necessity in the economic structure of the country is questionable. This haphazard multiplication of exchanges conduces to increase unwarranted price fluctuations.

Government intervention, therefore, in this regard is essential and permission should be granted for opening of an exchange only when the need for the same has been established. Associations functioning on a profit-sharing basis should not be allowed and only one produce exchange trading in a single commodity should be allowed to function in a particular region.

(b) In the course of our study of the working of the commodity exchanges in Bombay we have seen that the rules and bye-laws of the three associations as regards contract terms, arbitration, settlement and clearing vary a great deal. There are variations in respect of units of transactions, methods of clearing, arbitration, and settlement in the exchanges at present functioning in India. Attempts

9. Report of the Chief of the Commodity Exchange Administration, 1939, p. 45.

have been made by Government to introduce a Standard Contract in case of wheat, linseed and groundnuts. But it has met with limited response and it seems that a statutory backing to the Standard Contract is necessary to ensure their being adopted by the trade. It is also necessary to evolve uniform standards about grading, settlement, arbitration and clearing so as to place all markets on a systematic and easily comprehensible basis. The law could prescribe that no produce exchange could be formed without a certain number of members. Rules may also be laid down for the protection of customer's margin money and the financial stability of the parties may be ensured through statutory provision for adequate deposits by members. We are not concerned here with what precise rules and regulations should be laid down, or to what extent the produce exchanges in India could immediately be brought under the operation of such rules. Our contention only is that if the State undertakes legislation on an All-India basis and prescribes certain minimum conditions to be satisfied by every such institution, this would by itself tend to place the better organised produce exchanges at present existing in a more favourable position and will provide a spur to improvement in the case of others. It is perhaps needless to add that any such legislation will have to be enacted only after a due consideration of the views of all parties affected.

(c) The third point is as regards the control of prices. The question of control of prices presumes that the prices are not what they ought to be. However it is extremely difficult to decide under what conditions and at what levels the control should be placed. The question of such regulation arises only under conditions of crisis when the exchanges no longer function normally and speculative elements have an upper hand. In normal circumstances, interference with the price mechanism may do more harm than good. The government must, however, have the reserve powers to control prices in emergencies. In war-time for example, Government may justifiably prescribe as they have done for cotton the floor and ceiling prices within which alone fluctuations may be permissible, so that while futures trading and hedging operations are not altogether stopped the range of speculative activity is restricted to certain defined limits.

The Bombay Cotton Contracts Act, 1932.

In 1932, the Bombay Government enacted the Bombay Cotton

Contracts Act (Act IV of 1932) which provides for the recognition of the cotton associations satisfying certain conditions; but it does not make it obligatory for all such associations to apply for recognition. The Act specifically declared the East India Cotton Association a recognised association. Its provisions govern the working of that Institution only. There are, however, other associations which deal in cotton but are not recognised. The operations of such unrecognised bodies are not subject to the control of Government. The Act merely makes void any contract entered into which is not in accordance with the bye-laws of a recognised cotton association, and disallows in a court of law any claim for recovery of commission, brokerage, fee, etc. On account, however, of the absence of any penalty, the Act has proved ineffective in controlling cotton transactions in futures as a whole.

The East India Cotton Association still remains the sole body controlling and regulating all authorized trade in cotton. The Act empowers the East India Cotton Association to frame its rules and bye-laws and to look after its working. Thus the Bombay Cotton Contracts Act, 1932 implies control by the trade and not by the State.[10] Thus, there is no general State control in India, central or provincial, to control all the futures markets. Thus not only for grain and oilseeds but for cotton markets also, an effective all-sided measures like the Commodity Exchange Act of the U.S.A. is necessary for India in order to place futures trading on a sound basis, so as to avoid the abuses of speculation which has been noticed in other countries as well as in our own.

Present Position of Futures Trading in Bombay Markets.

A study of the three exchanges functioning in Bombay shows that the conditions of trading are not uniform. The Grain Merchants' Association as we have pointed out in Chapter IV has its own contract forms for wheat, linseed and groundnuts, while the Seeds Traders' Association and the Marwadi Chamber of Commerce follow the Standard Contract terms formulated by the Government of India. Varying terms in the same market prevent the necessary coordination between different associations and inter-trading is to a great extent hindered. The present Standard Contract terms are not obligatory and the associations are not bound to follow them. Unless there is a statutory provision for the same, the associations are bound

10. M. L. Dantwala, *Marketing of Raw Cotton in India*, p. 186.

to reject them for one reason or another. As mentioned in Chapter IV in the initial stages some difficulties would arise in adjustments but in course of time, suitable conditions would be created when adoption of standard contract terms would prove to be an incentive rather than an impediment.

The Clearing System : The clearing systems of the three associations differ from one another.[11] The Grain Merchants' Association has no clearing house. As the settlement transactions at this association are between members only and as no transactions of non-members are involved adjustments of accounts, etc., are made by the members amongst themselves. While at the other two associations there is a fortnightly clearing system. Thus here again, there is no coordination between these associations as regards clearing nor is there a proper system of recording of transactions which is so essential for the trade in the Bombay market.

Manipulations and Corners, etc. : On an examination of the system of short-sales prevailing in the three commodity exchanges in Bombay, we find that their influence on prices has not been beneficial to the producers. Short-sales have usually preceded the "corners" and "squeezes" which occurred from time to time in these markets. The most effective way of preventing manipulations of prices through short-selling would be the stipulation of the number of such sales to a definite maximum during a period of the Waida. This can be achieved by making the registration of short-sales also compulsory.

Margin Money : The clients of the brokers and commission agents are generally required to deposit margin money with them. Under existing conditions the handling by commission agents and brokers of customer's margin money is left entirely to the discretion of the former. Thus there is scope for deception as the brokers may utilise the client's money for their own purpose. In order to safeguard the interests of operators on the "futures" markets margin moneys should be deposited by commission agents and brokers with approved banks or with a clearing house organisation. Such margin moneys should not be mixed up with the funds of the commission agent or broker and should not be used to margin or guarantee or to extend credit to any person other than the one for whom the money is held.

11. See Chapter VII, p. 145.

It is only when the traders at the terminal markets act honestly and in good faith that the marketing of grain and oilseeds will come to be organised properly. A standardisation of option trading, short-selling and the system of margin money on the three exchanges in Bombay is necessary from this point of view, viz., the building up of confidence and trust in the mofussil areas.

To Sum Up : Considering the state of commodity exchanges in India—including those in Bombay—we feel the need of a central organisation on more or less the same lines as the American Commodity Exchange Administration for India.[12] The necessary administrative machinery may form part of the Commerce Department of the Government of India. Like the American Commodity Exchange Administration its duties may be divided into two categories : regulatory and research. The regulatory activities may provide a measure of control over those practices which too often demoralize the futures markets. They would aim at ensuring fair practices and honest dealings on commodity exchanges. The research work of the commodity exchange administration would consist in compilation and analysis of economic and statistical data. The results of research activities would throw valuable light on the various types of futures transactions and their significance also on improvements necessary for the marketing of agricultural commodities in general.

It is clear, however, that legislation alone cannot put the organised produce exchanges on a sound basis. While a great deal can be achieved by regulation of the right type, lasting results presuppose an improvement in the environment in which produce exchanges function. This is a question of business morality and the growth of an enlightened outlook among the members and the general public. Authentic information regarding market trends, proper publicity as to market transactions and judicious control of the institutions dealing in futures would themselves go a long way towards the attainment of this desirable end.

FINIS.

12. In Chapter VII we have suggested the possibility of forming an unofficial body—the Grain and Oilseeds Federation for India. The organisation of such a body would be a further step towards unification of produce exchanges and would facilitate functioning of Governmental control along the lines suggested above.

QUESTIONNAIRE

GRAIN & OILSEED EXCHANGES

Markets :

1. Please give the development and growth of Grain and Oil-seeds Markets in your city.
2. Please supply constitution and bye-laws of your Association. (Copy of rules and regulations).
3. What are the number of members and their scope of operations?
4. Is it a registered institution complying with statutory requirements? If so, in what way?
5. How does the Association derive its revenue? Does it ever borrow or advance money against stocks? If so, on what terms?
6. Does the Association possess its own exchanges or market premises? Give particulars. What commodities are dealt in?

Transactions :

7. What types of transactions take place, e.g., "Ready", "Futures", "Options", "Put" and "Take", etc., and proportion of each?
8. What are the commodities having futures market in your city? Please give the names of the market, the year in which trading in futures began?
9. What is the volume and estimated value of "spot" and "futures" trading done on your exchange?
10. To what extent does actual delivery of goods take place on "futures" contracts?
11. What are the minimum units of sales and purchases and the delivery months for the futures?
12. How are the price differences adjusted between buyer and seller?
13. Is any deposit required—if so, how much?

Dealers :

14. To what extent are the operators, principals or agents and how many act purely as brokers?
15. (a) To what extent are transactions entered into by or on behalf of outside persons who are not directly interested in the trade itself?
    (b) Is this a desirable feature or otherwise reasons?
16. What forms of contract, if any, are used by members?
17. Are these contracts registered by the Association? If so, what arbitration arrangements exist?

Survey and Arbitration :

18. Is the system of survey satisfactory?
19. When do you go in for arbitration?
20. Is the machinery satisfactory?
21. Please explain the circumstances under which its award must be given and regarded as final.

Clearing House :

22. Is there a clearing house to facilitate the passing of documents, the settlement of contracts and the clearing or adjusting of price difference between the successive buyers and sellers concerned in a series of related transactions?
23. How does the clearing operate?
24. Suggest improvement in the system of clearing.

Prices :

25. (a) Is there any definite relationship between spot and future prices?
    (b) The relevant factors to be taken into account.
26. Are there any special conditions on account of which "futures" prices are higher or lower than "spot" prices?
27. Are most of the transactions done at the "opening" and "closing" prices? Tell their precise significance.
28. Are the forward transactions responsible in keeping the prices "up" or "down"?
29. Do the prices of Indian Grain and Oilseeds move in keeping with world prices? Do the prices in other Indian markets have any relation?

Contracts :

30. What is the role of "Standard Contracts"? Give their functions, advantages and disadvantages.

Teji-Mandi Operations :

31. Please explain the procedure followed in Teji-Mandi transactions.
32. Should they be abolished or maintained?
33. What is the influence of Teji-Mandi transactions on prices?

Commodity Exchange Act :

34. Is it necessary to have a Commodity Exchange Act for India?
    (a) Is it necessary to have unitary or monopolistic control?
    (b) Should there be general "prohibition" of futures trading?
    (c) Should the Government control "futures" prices?
    (d) Should there be Federations of Exchanges?

* Answers to the above questionnaire were obtained and recorded by us personally at interviews with the Secretaries of the following Associations :

(1) The Grain Merchants' Association, Bombay.
(2) The Seeds Traders' Association, Bombay.
(3) The Marwadi Chamber of Commerce, Bombay.
(4) The Hapur Chamber of Commerce, Hapur.
(5) The Amritsar Produce Exchange, Amritsar.
(6) The Shyam Chamber Ltd. Lyallpur.

Some replies were also obtained by correspondence.

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GLOSSARY OF INDIAN TERMS

Anna—One-sixteenth of a rupee.

Badla—transactions—mean carrying forward transactions of one *Waida* into the following *Waida*.

Bamboowala—Weighman.

Bazar—Market.

Bazar Dhara Terms—Contract terms on the Bombay market.

Bechi—Sold.

Bichak—a negotiable warehouse receipt.

Crore—Ten millions.

Dalali—Brokerage.

Gali—Liquidated.

Gur—Jaggery.

Hundi—Bill of exchange or draft.

Karada—Impurities of foreign matter; also allowance for the same.

Khandi—A unit of sale.

Khakhas—Poppyseed.

Kacha—Literally "raw" and "unfinished." The term has a wide range of meanings. e.g. a kacha road is an unmetalled road, a *kachcha* weight usually implies a non-standard weight and a *kachcha arhatiya* is a commission agent who arranges the sale of produce arriving from rural areas.

Liya—Bought.

Lakh—One-tenth of a million.

Mahajans—Trade Associations of earlier days.

Maund—A unit of sale.

Muccadams—Guaranteed brokers.

Pucca—Literally "ripe" and "finished." The word has a wide range of meaning, e.g., a *pucca* road is a metalled road, a *pucca* weight usually implies standard weight and a *pucca arhatiya* is a commission agent who usually does business on behalf of outstation clients.

Sharafi—Goldsmith's business.

Shroffs—Indigenous bankers.

Teji-Mandi—Literally dearness, "Bull" option; and "*Mandi*"—cheapness, "Bear" option; "Tej-Mandi"—a double option, i.e. to buy or sell.

Tilseed—Sesamum.

Waida—forward trading.

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